north energy

# Annual report 2016

# North Energy at a glance

North Energy ASA is a Norwegian oil and gas company focusing on exploring for oil and gas on the Norwegian Continental Shelf ("NCS") as well as investing in other parts of the energy value chain. North Energy's goal is to become a successful energy company, recognized for value creation.

North Energy is a pure holding company. The Company's exploration activities are held in its subsidiary North E&P, while its investment activities are held in the subsidiary North Energy Capital.

At the end of 2016, the group of companies counted 14 full time employees. North Energy's headquarters are in Oslo. The Company is listed on the Oslo Stock Exchange with ticker "NORTH".

## Key figures

| MNOK | 2016 | 2015 |
|---|---|---|
| Exploration expenses | 29.1 | 415.2 |
| Earnings before tax | 4.2 | -525.1 |
| Tax | 76.6 | 399.1 |
| Net result | 80.8 | -126.1 |
| Equity | 406.9 | 314.9 |
| Equity % | 88% | 49% |
| Market capitalisation 31.12 | 262 | 123 |

# CEO's Statement

Dear fellow shareholders,
2016 was a transformational year for North Energy. We revised our business model and temporarily halted exploration drilling. We completed an aggressive cost-cutting programme and reduced our debt. The market responded positively to these measures, and throughout the year our share price more than doubled. The solid net profit that North Energy recorded in 2016 was the first positive full-year result in the Company's history.

The energy industry is facing difficult conditions and in order to guide North Energy through these times, we have chosen to be both proactive and adaptive. Instead of waiting for the better days to come, we moved quickly by cutting costs and restructuring the business model. As a result, North Energy has a solid position and foundation to build on.

Throughout 2016, the Company capitalized on the opportunities that still exist in the energy market, despite challenging conditions overall. North Energy booked a NOK 101 million gain from the acquisition of Explora Petroleum, and a 170 per cent gain on our investment in Norwegian Energy Company. As of February 2017, North Energy increased the investment in Reach Subsea and became the new major shareholder in the company. Our investment arm yielded solid results in 2016.

Our licence portfolio was slashed to a minimum last year. Our revised exploration strategy requires that all oil and gas prospects meet clear commercial thresholds – even in a lower price regime like the current one. Most of North E&P's existing licences did not meet the redefined criteria, leading to the sale and relinquishment of a number of licences. Although these measures may look like a systematic build-down of our portfolio, they are rather a reflection of our ambition to gradually rebuild our portfolio with high-quality licences – given an improvement in market fundamentals.

It is true that the current sentiment in the energy market remains subdued. But in the event of a rebound, North Energy's lean organizational structure, low investment commitments and comfortable financial position will allow us to capitalize on an upturn and generate solid returns for our shareholders. In the meantime we will continue to investiagte business opportunities that naturally exist in a changing market.

I would like to personally thank all our shareholders for their continued support.

Knut Sæberg
CEO, North Energy ASA

# Directors' report

# Board of Directors' Report 2016

North Energy ASA ("North Energy" or "Company") was established in 2007 with the goal of exploring commercial accumulations of oil and gas on the Norwegian Continental Shelf ("NCS"). In 2016, the Company broadened its business scope, following a resolution at an Extraordinary General Meeting ("EGM").

Today, the goal of North Energy is, directly or indirectly, to own, manage and finance activities within exploration, development and production of oil and gas resources and other forms of energy, and equivalent for other services and activities related to the oil and gas industry or energy.

North Energy is a holding company for a group of subsidiaries. The Company's operating and investment activities are reported through the subsidiary North Energy Capital ("NEC"). The Company's exploration activities are conducted by North E&P, a subsidiary of NEC. At the end of the fourth quarter, North Energy and its subsidiaries consisted of 14 full-time employees.

**Introduction**

2016 was a transformational year for North Energy. The Company revised its business model and a decision was made to temporarily halt exploration drilling while awaiting improved market conditions. The Company made dramatic cost cuts that contributed to the net profit for the year – the first ever positive full-year result for North Energy. Combined with the cost cuts, debt was also reduced.

The developments in the oil market have negatively affected the outlook for exploration activities, which has become more challenging, considering a lower oil price regime. This was the background for the Board of Directors ("Board") proposal to expand the Company's business scope to include businesses other than pure exploration activities. The proposal was approved at an EGM in February. The updated Articles of Association state that North Energy shall, directly or indirectly, own, manage and finance activities within exploration, development and production of oil and gas resources and other forms of energy, and equivalent for other services and activities related to the oil and gas industry or energy. The board is evaluating a further expansion of the articles.

The cost-cutting programmes announced in 2015 were successfully completed during 2016. The Company's operations have been relocated to Oslo, and the number of employees has been reduced by approximately 70 per cent. With a leaner organisation, limited investment commitments and NOK 154 million in net cash as of year-end 2016 (including net tax receivables and net working capital), the Company is in a comfortable financial position. In January 2017, North Energy called for an EGM to resolve a proposed cash dividend of NOK 0.25 per share. The proposal was based on the positive development in the Company's financial position during 2016. A total of NOK 29.8 million was distributed to the shareholders in March.

## Important events

### Business development

North Energy did not take part in drilling operations in 2016. Instead, the Company underwent a major restructuring of its licence portfolio. A total of 16 licences were either sold or relinquished, in line with the Company's revised exploration strategy. The Company will be very selective in making any future commitments, including applications during licensing rounds. The revised strategy states that prospects must meet stringent requirements for rapid commercialization – even in a low oil price regime. Based on its revised exploration strategy, North Energy did not take part in the 23rd Licensing Round. The Company did, however, submit an application in the APA 2016 Licensing Round, but as the sole applicant, was not awarded any licences when the results were announced in January 2017.

### The following sales of license interests were completed in 2016:

- PL 378 – Sale of 17.5 per cent interest to Wintershall
- PL 507 – Sale of 25 per cent interest to Aker BP
- PL 707 – Sale of 10 per cent interest to Lime Petroleum Norway
- PL 719 – Sale of 20 per cent to Aker BP
- PL 722 – Sale of 10 per cent interest to Aker BP
- PL 762 – Sale of 20 per cent interest to Fortis
- PL 784 – Sale of 20 per cent interest to Statoil
- PL 789 – Sale of 20 per cent interest to Fortis
- PL 798 – Sale of 20 per cent interest to Statoil
- PL 799 – Sale of 20 per cent interest to Statoil

North Energy held four NCS licences at the end of 2016, a reduction from 19 at year-end 2015. The Company's ambition is to rebuild its licence portfolio gradually, and with quality assets derived from future awards in licensing rounds or through market transactions.

### The acquisition of Explora Petroleum

North Energy announced the acquisition of Explora in December 2015. Norwegian authorities subsequently approved the acquisition, and the transaction was completed and accounted for in February 2016.

Explora held 16 licences on the NCS at the date of transaction. However, a large proportion of these were subsequently sold or relinquished because of the high grading strategy described above. North Energy consolidated its petroleum operations in a single company by transferring these operations to Explora, thereby bringing employees together in a new organisation. With all petroleum activities in the merged company being held in North E&P AS, North Energy ASA became a holding company. The reorganization was completed during the second quarter of 2016.

The acquisition of Explora was completed in February 2016. The total purchase consideration was NOK 21 million, while the net fair value of the identifiable assets acquired totalled NOK 122 million. This resulted in a recorded gain of NOK 101 million, recorded in the first quarter financial statements.

### Other investments

Throughout 2016, North Energy made several other investments in oil and energy-related companies. The Company booked a significant gain of NOK 16.3 million from its investment in Norwegian Energy Company ("Noreco"). North Energy also took a strategic position in Reach Subsea, and as of year-end 2016 the ownership was 9.8 per cent. Listed on the Oslo Stock Exchange, Reach Subsea is a company providing certain ROV, engineering and consultancy services to the oil industry. As of year-end 2016, the company had a market capitalization of NOK 172 million. The Company's investment in Reach is in line with its revised strategy focusing on strategic opportunities where substantial influence and control can be exercised in other energy-related businesses. As per year-end 2016, North Energy had NOK 51.3 million in total investments.

In January 2017, North Energy announced that its subsidiary NEC, through a series of transactions would become the new major shareholder of Reach, controlling a strategic stake of 28.7 per cent.

NEC had reached an agreement with certain shareholders of Accello Partners I AS ("Accello"), at the time 30 per cent shareholder of Reach, to acquire their shares and shareholder loans, corresponding to 74 per cent of the shares in Accello. Simultaneously, NEC/Accello subscribed for 14.3 million shares at NOK 1.75 per share in Reach's contemplated private placement. Post completion of the Accello acquisition and Reach private placement, the selling shareholders of Accello became direct shareholders of Reach, while Accello owned 28.7 per cent of Reach.

### A new corporate and management structure

In April, the Board put forth a proposal for a new corporate and management structure to strengthen the Company's business model and commercial platform. As a key part of its new strategy, North Energy also proposed to strengthen its management resources. The proposal, which was approved at an EGM in May, included an advisory agreement whereby the Company outsourced certain strategic, financial and business advisory services to North Advisors AS. North Advisors is an advisory company owned by a group of key stakeholders of the Company, consisting of Anders Onarheim, Rachid Bendriss and Didrik Leikvang.

### Share acquisitions by primary insiders

Throughout the year, several primary insiders increased their holdings of shares in North Energy. Chairman of the Board, Anders Onarheim, accumulated 9.2 million shares, and controlled 15.6 million shares as per 31 December, corresponding to 13.1 per cent ownership. Financial advisors Didrik Leikvang and Rachid Bendriss acquired 4.3 million and 6.2 million shares, respectively, bringing their ownerships to 4.0 per cent and 5.2 per cent, respectively. CEO Knut Sæberg acquired 0.5 million shares, bringing his holding to 0.7 million shares, corresponding to an ownership of 0.6 per cent.

### Going concern

Pursuant to section 3-3a of the Norwegian Accounting Act, the Board confirms the going concern assumption and that the financial statements are prepared on this basis. That assumption rests on the Company's financial position, as well as forecasts for 2017 and the Company's long-term strategic predictions for the years to come.

### Comments on the annual financial statements

The financial statements of North Energy ASA have been prepared in accordance with

International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with the additional requirements pursuant to the Norwegian Accounting Act. The financial statements to which the comments below relate are for the North Energy group, comprising North Energy ASA, North E&P AS and North Energy Capital AS and 4Sea Energy AS. The Board is not aware of any significant considerations that affect the assessment of the Group's position as at 31 December 2016, or the net result for the year, other than those presented in the Directors' report and the financial statements.

Total revenue for 2016 was NOK 14.0 million compared with NOK 5.4 million for 2015. The revenue for the year stems from gain from sales of licences. Total exploration expenses in 2016 were NOK 29.1 million compared with NOK 415.2 million in 2015. While there were no drilling operations during 2016, the Company took part in three exploration wells in 2015, all of which were expensed in the profit and loss statement for a total of NOK 353,6 million. Payroll and related expenses in 2016 were NOK 32.5 million, a reduction from NOK 40.3 million in 2015. The reduction reflects the effect from cost-cutting measures initiated in 2015. EBITDA for 2016 was negative at NOK 88.3 million versus a negative NOK 494.6 million for 2015. The improvement was mainly the result of lower exploration expenses.

Net financial items were negative at NOK 5.8 million, versus a negative of NOK 24.5 million for 2015.

As described above, the Company in 2016 booked a NOK 100.8 million gain from the Explora acquisition. This led the Company to report a profit before tax of NOK 4.2 million for the full year 2016. The corresponding figure for 2015 was a negative NOK 525.1 million. Income tax in 2016 was NOK 76.6 million, compared with NOK 399.1 million in 2015. The net profit for 2016 amounted to NOK 80.8 million, compared with a loss in 2015 of NOK 126.1 million. The net profit amounts to both basic and diluted earnings of NOK 0.70 per share, versus a negative NOK 1.06 per share in 2015.

Total assets at the end of the year were NOK 462.0 million, down from NOK 647.2 million at year-end 2015. The decrease is mainly driven by less tax receivables due to lower exploration expenses.

Total equity at the end of the year was NOK 406.9 million, up from NOK 314.9 million at the end of 2015, reflecting the consolidation of the new subsidiary North E&P, which contributed NOK 119.9 million to the equity when consolidated in the first quarter of 2016. The Company's equity ratio stood at 88 per cent at the end of the year.

Interest-bearing debt at the end of the year was NOK 26.2 million. This consists solely of the exploration credit facility. The convertible loans were repaid in full during the fourth quarter of 2016, ahead of schedule.

North Energy recorded NOK 126.5 million in cash and cash equivalents at the end of the year, up from NOK 34.8 million at year-end 2015. Adjusted for tax receivables of NOK 67.9 million, net working capital of negative NOK 15.8 million, the exploration loan balance of NOK 24.7 million, the Company reported a net cash position of NOK 154.0 million, versus NOK 188.3 million at year-end 2015. Net cash flow from operating activities totalled NOK 562.2 million, compared with NOK 24.6 million for

2015. The main reason for the deviation from the operating result is the tax receivables, as described in depth below. Net cash flow from investing activities in 2016 was positive at NOK 16.3 million, versus minus NOK 193.3 million in 2015.

Total drawdown on the Norwegian Continental Shelf ("NCS") Exploration Credit Facility in 2016 was NOK 26.2 million. This amount will be repaid when the Company receives its exploration tax refund in November 2017. The tax refund related to 2015 exploration expenses was solely used to pay off on the Exploration Credit Facility.

During the first quarter, a new Exploration Credit Facility for 2016-2017 was signed with DNB and SEB, with DNB as the lead bank. The agreement strengthens and secures the Company's financial position. The Board regards the Company's financial position as satisfactory.

## Allocation of net profit

The Board proposes that the net profit of NOK 80.8 million be transferred to other equity.

## Future developments

Following the reorganisation and repositioning of North Energy in 2015 and 2016, the Company is now in a good position industrially as well as financially. With a lean organisation, no major investment commitments and financial flexibility to grow the business, North Energy has come a long way in successfully repositioning the Company in what remains a challenging market.

Forward-looking statements reflect current views about future events, and are, by their nature, subject to significant risks and uncertainties as they are contingent on circumstances and events that have yet to occur.

## Corporate governance

Corporate governance in North Energy is based on the Norwegian code of practice for corporate governance. A separate status report related to the code has been included in this Annual Report. Any non-compliance with the code is specified and explained in the status report.

North Energy's corporate governance builds on the Norwegian oil industry's standards for internal control. The group was qualified as a licensee on the NCS in 2008 and prequalified as an operator in 2009. Systems for internal control have subsequently been maintained and further developed. The Company secured a stock exchange listing in February 2010, and the Group built up systems and routines ahead of that event to handle the demands made on listed companies in terms of accurate financial reporting within specified deadlines. The Board intends to take account of all factors relevant to the Company's overall risk picture. By doing so, it aims to ensure that the collective operational and financial exposure is at a satisfactory level.

North Energy's Articles of Association contain no provisions which wholly or partly exceed or restrict the provisions in chapter 5 of the Norwegian Public Companies Act. Several considerations, which collectively ensure a good and broad composition, have been considered when electing the Board. These include an appropriate gender distribution, good strategic, petroleum technology and accounting expertise, a good division between owner-based and independent candidates, and relevant representation of Company employees. The Board functions collectively as an Audit Committee.

A Compensation Committee drawn from the Board has also been established to ensure that remuneration of employees is matched to market levels.

Instructions have been developed and adopted for the CEO, the Board and the Company's Nomination Committee. The instructions for the Board specify its principal duties and the responsibilities of the CEO towards the Board, as well as guidelines for handling matters between the Board and the executive management.
The instructions for the Nomination Committee specify its mandate and provide guidelines on its composition and mode of working.
The Company's Articles of Association provide no guidance on the composition of the Board, other than that it must comprise of three to nine Directors. The articles do not authorise the Board to purchase the Company's own shares or to issue shares.

## Risk assessment

### Overall objectives and strategy

North Energy's financial risk management is intended to ensure that risks of significance for the Company's goals are identified, analysed and managed in a systematic and cost-efficient manner. The Company is exposed to financial risk in various areas, as described below.
The foreign exchange risk is limited since borrowings to date have not been made in foreign currencies. Monitoring of risk exposure and assessment of the need to deploy financial instruments are pursued continuously.

### Operational risk

North Energy is an enterprise where operational risk is closely related to its expertise.
The Company therefore devotes attention to developing its expertise and organisation, and to its management systems. While maintaining focus on HSE, the management regards the related risks to be low as the company is currently not an operator in any licences.

### Liquidity risk

The sharp drop in oil prices has adversely affected the transaction market for sales of licence interests and discoveries. This creates a risk for North Energy that possible future commercial discoveries in which it is involved may become less attractive in the market. This is one reason why the Company adjusted its exploration strategy to focus future activities solely on areas with clear commercial potential – even with a continued low price regime.

The Group's ongoing financing needs are forecasted on a continuous basis, and the level of activity is tailored to liquidity. The Company's primary source of funding has traditionally been equity. North Energy has otherwise raised loans in connection with bridge financing to cover the state's exploration costs until refunded through the tax settlement, which occurs 12-24 months after costs are incurred.

### Market risk

With a growing investment arm, North Energy is exposed to market risk involving the risk of changing conditions in the specific marketplace in which the Company makes investments. Sources of market risk include recessions, political turmoil, changes in interest rates, natural disasters and terrorist attacks.

### Interest rate risk

The Company is exposed to interest rate changes for its bridge financing, which typically has an average term of 18 months, since this financing carries floating interest rates.  Fluctuations in interest rates may affect investment opportunities in the future.

### Credit risk

The risk of bad debts is considered low, since a large part of the Company's receivables in this phase relate to the Norwegian government and comprise of the tax value of exploration costs.

### Foreign exchange

North Energy is not involved in producing fields and has therefore no direct exposure to large oil price fluctuations. North Energy continuously evaluates currency hedges for costs in foreign currencies where the payment dates are known.

### HSE and the natural environment

No incidents relating to North Energy's operations were reported in 2016. A core principle of North Energy is to prevent any incidents or accidents to employees or partners working with the Company and to conduct business in a way that will not do damage to the environment. Steering documents ensure that the Company's employees are equipped to conduct their operations in a safe, environmentally responsible and ethically sound manner.

### Human resources and equal opportunities

Following the completion of significant cost cutting initiatives, North Energy's staff level has stabilized at a low level. At year-end 2016, the Group consisted of 14 full time employees, up from 12 employees at the end of 2015. The North Energy staff consists mainly of technical personnel in addition to essential management and administrative staff. The Company is now located in Oslo. North Energy aims to have a good gender balance and is an equal opportunity employer. At year-end 2016, the Company employed 5 female and 9 males.

In April 2015, the Board of Directors dismissed Mr. Karlstrøm from his duties, with immediate effect. Mr. Karlstrøm argued that the dismissal was unlawful, however the dispute has now been settled by both parties. In the fourth quarter of 2016, the Company entered a settlement agreement with former CEO Erik Karlstrøm.

At the Company's General Meeting in June 2016, the Board of Directors were re-elected. Out of the three directors elected, one is female.

The rate of absence due to illness during 2016 was below 2 per cent of total hours worked, down from 4.1 per cent in 2015. The Board considers it important that employees regard North Energy as a safe and motivating workplace.

Remuneration is determined in accordance with the content of the work and the employee's qualifications. The remuneration of the executive management is described in the notes to the financial statements.

## Corporate social responsibility ("CSR")

The Board of North Energy gives emphasis to a positive contribution being made by the Company to those sections of society affected by its operations, while simultaneously looking after the interests of its owners. The Company follows this up by integrating social and environmental considerations in its strategy and day-to-day operations.

North Energy is committed to looking after the interests of all stakeholders including, owners, employees, business connections and the public.

The Company has established practices to ensure openness, anti-corruption, respect for human rights and standards for working life. North Energy ensures that the Company's activities with respect to CSR are planned in a professional manner and integrated into the Company's business planning. The execution of the Company's CSR activities is measured, both internally as well as externally.

North Energy has developed a policy statement which further describes its commitment to CSR. The document is published on its website.

## Reporting of payments to the government

Enterprises in the extractive industries with a statutory duty to prepare accounts are required to prepare and publish an annual report with information on their payments to government at country and project level. This report is available on the Company's website at www.northenergy.no.

## Ownership

North Energy had 959 shareholders as of 31 December 2016. Throughout the year and into 2017, several long-term institutional shareholders reduced their holdings in North Energy, whilst several new investors took a position in the Company. As of year-end 2016, the top 20 owners together held 68.4 per cent of the shares in the North Energy.

As per February 2017 the Company had increased its shareholders to above 2000. The share price on the last day of trading in 2016 was NOK 2.20, while on the last day of trading in 2015 the share price was NOK 1.03, representing a 113 per cent increase over the year. The share price peaked at NOK 2.45 on 13 September, while the lowest price in 2016 was NOK 0.97 on 7 January.

## Outlook

With North Energy's strong position, industrially as well as financially, the new management setup and a lean organisation, it is the Board and Managements view that the Company is relatively well positioned to meet the challenging market conditions that remain in the oil and gas industry. The dividend of NOK 0.25 per share reflects a successful repositioning of the Company in 2016. The high grading of the licence portfolio has led to limited investment commitments going forward, thereby securing the Company's net cash position, which stood at NOK 154 million at year-end 2016.

Given the current market situation, North Energy will continue to safeguard its cash position and be very selective about future investments. Therefore, North Energy does not expect to participate in drilling of exploration wells in 2017. Through investments in both Explora and Noreco, North Energy has demonstrated an ability to create significant value with its revised business strategy. The Company expects to make new investments as strategic opportunities arise, wherein substantial influence and control can be exercised. The recent investment in Reach Subsea is an example of this.

"The dividend of NOK 0.25 per share reflects a successful repositioning of the Company in 2016."

# Board of Directors

Oslo, 22 March 2017

Anders Onarheim, Chair

Jogeir Romestrand, Director

Elin Karfjell, Director

Johan Terje Bjerka, Director

Knut Sæberg, CEO

# Corporate Governance

Pursuant to section 3, sub-section 3b of the Norwegian Accounting Act, North Energy is required to include a description of its principles for good corporate governance in the Directors' report of its Annual Report or, alternatively, refer to where this information can be found. The Norwegian Corporate Governance Board (NCGB) has issued the Norwegian code of practice for corporate governance (the code), which can be found at www.nues.no. Observance of the code is based on the "comply or explain" principle, which means that companies must explain either how they comply with each of the recommendations in the code or why they have chosen an alternative approach.

The Oslo Stock Exchange requires that listed companies provide an explanation of their corporate governance policy annually. Current requirements for companies listed on the Oslo Stock Exchange can be found at www.oslobors.no.

The following information is presented according to the same structure as the code and contains the same 15 main elements.

**1. Implementation and reporting on corporate governance**

Implementation and reporting on corporate governance. It is the executive management's job to ensure that the areas of responsibility, individually and collectively, are prioritised according to the Company's values and business codes. The Company has established clear guidelines for ethics and corporate social responsibility. These can be found on the Company's website, www.northenergy.no.

**2. The business**

North Energy's business purpose is to directly or indirectly own, manage and provide financing for activities within exploration, development and production of oil and gas resources and other forms of energy, and equivalent for other services and activities related to the oil and gas industry or energy.

North Energy's vision is to become a successful and respected energy company that is committed to creating value. The Company will achieve this by focusing on core exploration areas and prospectivity with clear commercial potential, while at the same time investigating strategic options including M&As and possible expansion into other parts of the energy value chain.

North Energy's Articles of Association specify clear parameters for its operations, while its vision, goals and strategies are at the core of its management philosophy and operations.

**3. Equity and dividends**

The Company's dividend policy, outlined on its web page, states that any payment of dividends will be determined based on the Company's expected cash flow, capital expenditure plans, financing requirements and other factors the Board considers relevant.

All proposals from the Board concerning dividends must be approved by shareholders at the General Meeting to ensure that the Company's equity and dividend are consistent with its objectives, strategies and risk profile.

North Energy did not pay any dividend in 2016, but in January 2017, the Board proposed to pay a NOK 0.25 per share dividend, corresponding to a total distribution of NOK 29.8 million. The proposal was approved at an Extraordinary General Meeting ("EGM") in February.

Equity as of 31 December 2016 was NOK 406.9 million, compared with NOK 314.9 million at year-end 2015, giving an equity ratio of 88 per cent, up from 48.7 per cent at year-end 2015. Liquidity is regarded as satisfactory in relation to the Company's future obligations.

Cash, cash equivalents and provision for tax refunds, less interest-bearing debt, totaled NOK 154 million at 31 December. North Energy also has an overdraft facility of NOK 200 million which covers tax-refundable exploration costs, of which NOK 26.2 million was drawn down at 31 December 2016.

At present, North Energy does not have any authorization to issue new shares.

**4. Equal treatment of shareholders and transactions with close associates**

Should North Energy be a party to any transaction that may involve a close associate of the Company or other companies that Directors, senior executives or their close associates have a significant interest in, whether directly or indirectly, the parties concerned must immediately notify the Board. All such transactions must be approved by the Chief Executive and the Board and, where required, a market notification must be sent.

North Energy made no investment in its own shares during 2016.

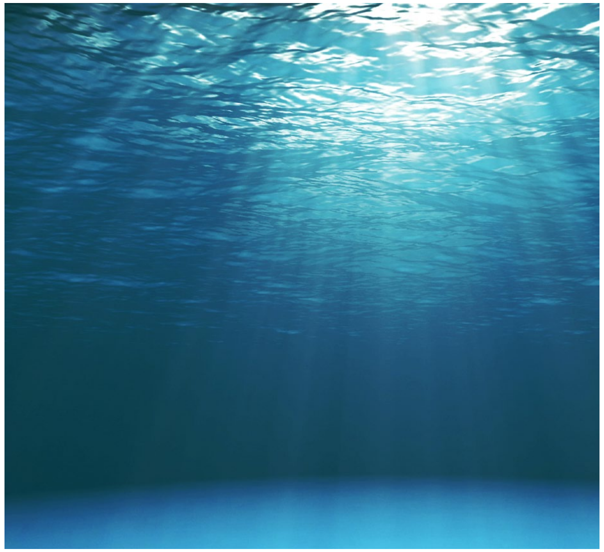
**5. Freely negotiable shares**

The North Energy share is listed on the Oslo Axess exchange. All the shares are freely negotiable. The Articles of Association impose no restrictions on the negotiability of the share.

**6. General Meetings**

The Annual General Meeting ("AGM") is North Energy's highest authority. The Company's General Meetings in 2016 (AGM and EGM's) were held in accordance with the Public Companies Act.

The Board endeavors to ensure that the General Meeting is an effective forum for communication between the Board and the Company's shareholders.



Thus, the Board makes provision for the highest possible participation by the Company's owners at the General Meeting. Notice of the meeting and supporting documentation for items on the agenda are made available on the Company's website no later than 21 days before the General Meeting. Provision is also made for shareholders to vote in advance of the Company's General Meeting, and elections are organized such that it is possible to vote individually candidates nominated to serve in the Company's elected bodies. Shareholders who cannot attend the General Meeting in person are able to appoint a proxy to vote on their behalf. Proxy forms are provided that allow the proxy to be instructed how to vote on each agenda item.

The Board determines the agenda for the General Meeting. However, the most important items on the agenda are dictated by the Public Companies Act and the Company's Articles of Association. Meeting minutes are published on the Company's website the day after the General Meetings, at latest.

**7. Nomination Committee**

The Nomination Committee submits recommendations for candidates to be elected, along with a justification, to the General Meeting, as well as nominates the Chair of the Board. Furthermore, the Committee will submit substantiated proposals for the remuneration of Directors and recommend Committee members. Establishment of the Committee is stipulated by the Articles of Association, and its work is regulated by instructions adopted by the General Meeting.

Nomination Committee members serve independently of the Board and the Company's executive management. Members of the Committee receive a fixed remuneration which is not dependent on results. The General Meeting decides on all recommendations made by the Committee.

The members of the Nomination Committee are Rabbe Lund (Head), Merete Haugli and Hans Kristian Rød.

**8. Corporate assembly and Board of Directors: composition and independence**

North Energy has chosen not to have a corporate assembly.

North Energy initiated a significant cost-cutting programme in 2015, in response to adverse market conditions. To contribute to this programme, the Nomination Committee recommended to the 2015 AGM that the Board should be reduced to the three existing shareholder-elected Directors. The recommendation from the Nomination Committee was approved at the AGM. The Board consists of two men and one woman who serve as shareholder-elected Directors. All have broad experience. Two of these Directors are elected independently by the Company's shareholders.

In addition, one Director is elected from and by the Company's employees. The Directors provide industry-specific professional expertise and experience from national and international companies. More information on each Director is available at www.northenergy.no.

Shareholder-elected Directors are elected for two-year terms. Elections are conducted in such a way that new directors can join the board every year.

Apart from Chairman Anders Onarheim, North Energy regards its Directors as independent of the Company's executive management and significant business partners. At present, all three Directors own shares directly or indirectly in North Energy. No director holds options to buy further shares.

As a key part of its revised business strategy announced in 2016, North Energy elected to strengthen its management resources. The Company negotiated an advisory agreement whereby North Energy outsourced certain strategic, financial and business advisory services to North Advisors AS ("North Advisors"), an advisory company owned by a group of key stakeholders of North Energy, including Mr. Onarheim. As remuneration for its services, North Advisors receive a fee equivalent to 2 per cent per year based on the consolidated book equity of North Energy. The proposal to outsource certain management functions to North Advisors was presented in detail and subsequently approved at an EGM in May 2016.

**9. The work of the Board of Directors**
The Board's work is regulated by instructions. Its duties consist primarily of managing North Energy, which includes determining the Company's strategy and overall goals, approving its action programme and ensuring an acceptable organisation of the business in line with the Company's Articles of Association. The Board can also determine guidelines for the business and issue orders in specific cases. The Board must look after North Energy's interests as a whole, and not act as individual shareholders.

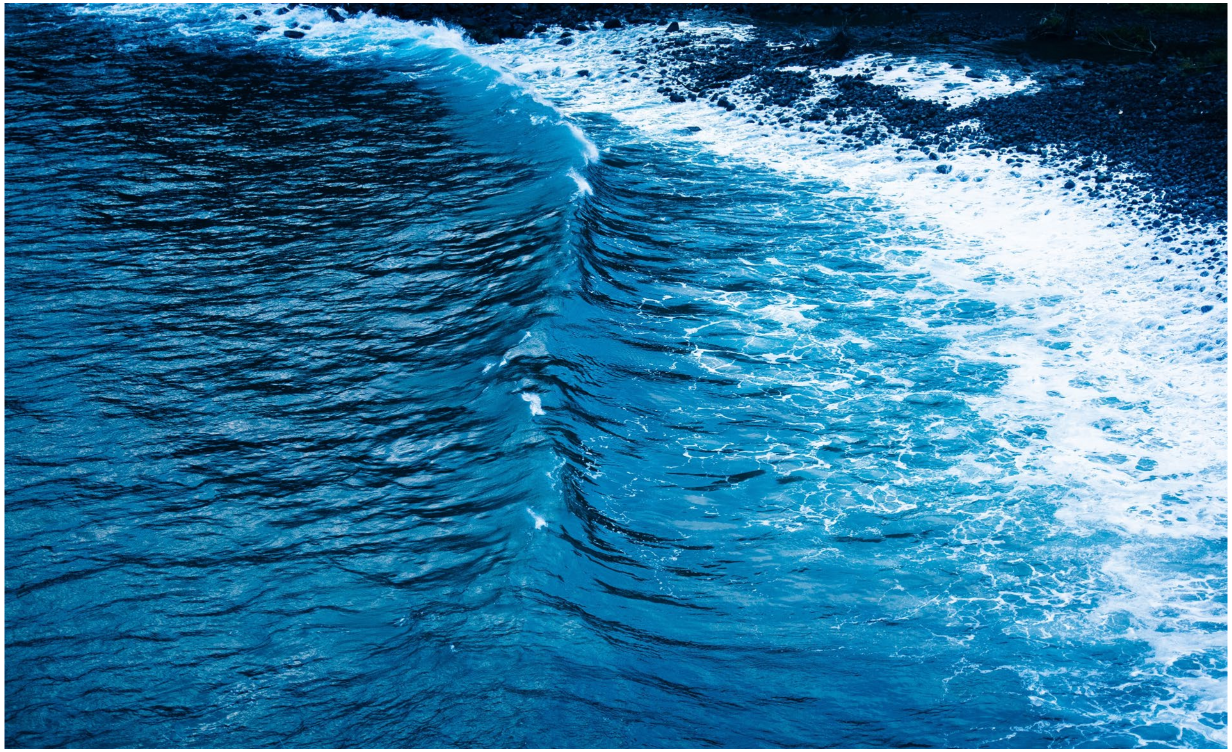
A clear division of responsibility has been established between the Board and the executive management. The Chief Executive is responsible for operational management of the Company and reports regularly to the Board. The administration is responsible for preparing matters for board meetings. Ensuring that the work of the Board is conducted in an efficient and correct manner in accordance with relevant legislation is the responsibility of the Chair. The Board ensures that the auditor fulfils a satisfactory and independent control function. It presents the auditor's report to the General Meeting, which also approves the remuneration of the auditor. It was resolved in 2014 that the Audit Committee's duties would be discharged directly by the Board. A Compensation Committee was established by the Board in 2014.

The Committee will ensure that compensation arrangements support the Company's strategy and enable it to recruit, motivate and retain managers of a high standard, while complying with requirements set by governing bodies, fulfilling shareholder expectations and being in line with the expectations of the rest of the workforce. The Board conducts an annual evaluation of its work, competence and performance.

15 board meetings were held in 2016, including 5 without physical attendance, and average attendance by directors was 100 per cent.

**10. Risk management and internal control**
Strict standards are set for the Company's internal control and management system as a player in the oil and gas industry. Work on further development and improvement of North Energy's management system and associated documentation is a priority job in the Company's corporate governance and risk management. The Company's management system is a good tool for the executive management and the workforce, and reduces the risk of errors and misunderstandings. The system facilitates collaboration and learning, and ensures continuity in the execution of the company's processes.

North Energy has incorporated well-functioning systems and routines to identify, record and follow-up nonconformities. These are all followed up systematically by the Company management, which sees to it that corrective measures are adopted. Undesirable incidents, unfortunate conditions and improvement suggestions are recorded and dealt with in the same improvement system. The executive management follows regularly up conditions which present the Company with a financial risk daily, and reports these to the Board. Reporting to the Board by the Company gives emphasis both to the on-going risk in daily operations and to risk associated with the investment opportunities presented. In addition, the Board considers an overall risk assessment at least twice a year which takes account of all the Company's activities and the exposure these involve. The Board is also presented at regular intervals with the auditor's assessments of financial risk.



**11. Remuneration of the Board of Directors**
The Nomination Committee recommends the Directors' fees to the General Meeting, and takes account of their responsibility, qualifications, time taken and the complexity of the business. Directors' fees are not profit-related. North Energy has not issued any options to its shareholder-elected Directors.

Apart from Mr. Onarheim's assignment in North Advisors described above, none of the shareholer-elected Directors have undertaken special assignments for North Energy other than those presented in this report, and none have received compensation from the Company other than normal Directors' fees.

**12. Remuneration of executive personnel**
The Board determines the remuneration of the Chief Executive, taking into account the responsibility involved, qualifications, the complexity of the work and the results achieved. Furthermore, the Board determines the principles for remuneration of other senior executives in the Company, which are outlined in the Annual Report. All employees have the same performance-based bonus scheme. Further information is provided in the notes section of the annual financial statements.

**13. Information and communications**
North Energy keeps its shareholders and investors regularly informed about its commercial and financial status. The Board is conscientious that all stakeholders shall receive the same information at the same time, and all financial and commercial information are made available

on the Company's website simultaneously. Stock exchange announcements are distributed through www.newsweb.no and made available on the Company's website.

The annual financial statements for North Energy are made available on its website at least three weeks before the General Meeting. Interim reports are published within two months after the end of each quarter. Quarterly presentations are transmitted directly over the internet. North Energy publishes an annual financial calendar which is available on the Oslo Stock Exchange website. The Board emphasizes openness and equal treatment in relation to all relevant parties in the market, and strives always to provide as correct a picture as possible of the Company's financial position.

### 14. Takeovers

North Energy's Articles of Association contain no restrictions on or defense mechanisms against the acquisition of the Company's shares. In accordance with its general responsibility for the management of North Energy, the Board will act in the best interests of all the Company's shareholders in such an event. Unless special grounds exist, the Board will not seek to prevent takeover offers for the Company's business or shares. Should an offer be made for the shares of North Energy, the Board will issue a statement with its recommendation as to whether shareholders should accept it.

### 15. Auditor

The annual financial statements are audited by PricewaterhouseCoopers AS. The Board receives and considers the auditor's report after the financial statements for the relevant year have been audited. The auditor submits an annual plan for the conduct of audit work, and attends board meetings when the consideration of accounting matters requires their presence. In at least one of these meetings, the auditor makes a presentation to the Board without the executive management being present. The auditor presents a declaration of independence and objectivity. Relations with the auditor are regularly reviewed by the Board to ensure that the auditor exercises an independent and satisfactory control function. The Board presents the auditor's fee to the General Meeting for approval by the shareholders.

# Financial Statements & Notes

# Financial Statements – North Energy Group

## Consolidated income statement

NOK 1 000

| | Note | 2016 | 2015 |
|---|---|---|---|
| Gain from sales of licences | 22 | 14 039 | 5 367 |
| Payroll and related expenses | 5 | (32 481) | (40 292) |
| Depreciation and amortisation | 16 | (2 552) | (6 050) |
| Exploration expenses | 17 | (29 089) | (415 240) |
| Other operating expenses | 6 | (40 781) | (44 388) |
| **OPERATING LOSS** | | **(90 863)** | **(500 602)** |
| Financial income | 18 | 37 617 | 17 585 |
| Financial expenses | 18 | (43 391) | (42 113) |
| **NET FINANCIAL ITEMS** | | **(5 774)** | **(24 529)** |
| Gain from bargain purchase | 27 | 100 808 | 0 |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | | **4 171** | **(525 131)** |

| | Note | 2016 | 2015 |
|---|---|---|---|
| Income tax credit | 15 | 76 612 | 399 079 |
| **PROFIT/(LOSS) FOR THE YEAR** | | **80 782** | **(126 052)** |
| Attributable to: | | | |
| Owners of North Energy ASA | | 83 156 | (126 052) |
| Minority interests | | (2 374) | 0 |
| | | **80 782** | **(126 052)** |
| Earnings per share (NOK per share) | | | |
| - Basic | 13 | 0,70 | (1,06) |
| - Diluted | 13 | 0,70 | (1,06) |

# Consolidated statement of comprehensive income

NOK 1 000

| | Note | 2016 | 2015 |
|---|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR** | | **80 782** | **(126 052)** |
| | | | |
| Other comprehensive income, net of tax: | | | |
| Items that will not be reclassified to profit or loss in subsequent periods: | | | |
| Remeasurements pension, actuarial gain/(loss) | 21 | (65) | (403) |
| Items that will be reclassified to profit or loss in subsequent periods: | | | |
| Available for sale investments - change in fair value | 26 | 11 033 | 1 296 |
| **TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX** | | **10 968** | **893** |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | **91 750** | **(125 159)** |
| | | | |
| Attributable to: | | | |
| Owners of north energy ASA | | 92 602 | (125 159) |
| Minority interests | | ( 852) | 0 |
| | | 91 750 | (125 159) |

# Consolidated balance sheet

NOK 1 000

## ASSETS

| Non-current assets | Note | 31/12/16 | 31/12/15 |
|---|---|---|---|
| Property, plant and equipment | 16 | 1 271 | 3 768 |
| Capitalised exploration and licence costs | 17 | 0 | 4 |
| Available for sale investments | 26 | 51 262 | 10 886 |
| Deferred tax asset | 15 | 207 291 | 149 803 |
| Other receivables | 7 | 2 418 | 7 634 |
| **TOTAL NON-CURRENT ASSETS** | | **262 242** | **172 095** |
| **Current assets** | | | |
| Prepayments and other receivables | 8 | 5 372 | 57 631 |
| Tax receivable, refund tax value exploration expenses | 15 | 67 887 | 382 642 |
| Cash and cash equivalents | 9 | 126 535 | 34 829 |
| Total current assets | | 199 794 | 475 101 |
| **TOTAL ASSETS** | | **462 036** | **647 196** |

## EQUITY AND LIABILITIES

| Equity | Note | 31/12/16 | 31/12/15 |
|---|---|---|---|
| Share capital | 10 | 119 047 | 119 047 |
| Share premium | | 965 772 | 965 772 |
| Other paid-in capital | | 30 691 | 30 691 |
| Retained earnings | | (707 992) | (800 594) |
| Minority interests | | (652) | 0 |
| **TOTAL EQUITY** | | **406 866** | **314 916** |
| | | | |
| **Liabilities** | | | |
| **non-current liabilities** | | | |
| Pension liabilities | 21 | (0) | 4 524 |
| Convertible loans | 23 | 0 | 41 041 |
| **TOTAL NON-CURRENT LIABILITIES** | | **(0)** | **45 565** |
| | | | |
| **Current liabilities** | | | |
| Current borrowings | 11 | 24 663 | 253 295 |
| Trade creditors | | 2 967 | 1 720 |
| Other current liabilities | 12 | 27 539 | 31 700 |
| **TOTAL CURRENT LIABILITIES** | | **55 169** | **286 715** |
| **TOTAL LIABILITIES** | | **55 169** | **332 279** |
| **TOTAL EQUITY AND LIABILITIES** | | **462 036** | **647 196** |

Oslo, 22 March 2017

Anders Onarheim, Chair | Jogeir Romestrand, Director | Elin Karfjell, Director | Johan Terje Bjerka, Director | Knut Sæberg, CEO

# Consolidated statement of changes in equity

NOK 1 000

| | Share capital | Share premium | Other paid-in capital | Retained earnings | Minority interests | Total equity |
|---|---|---|---|---|---|---|
| Equity at 1 January 2015 | 119 047 | 965 772 | 30 691 | (675 435) | 0 | 440 075 |
| Comprehensive income: | | | | | | |
| Total compehensive loss for 2015 | | | | (125 159) | | (125 159) |
| **EQUITY AT 31 DECEMBER 2015** | **119 047** | **965 772** | **30 691** | **(800 594)** | **0** | **314 916** |
| | | | | | | |
| Equity at 1 January 2016 | 119 047 | 965 772 | 30 691 | (800 594) | 0 | 314 916 |
| Comprehensive income: | | | | | | |
| Total compehensive income for 2016 | | | | 92 602 | (852) | 91 750 |
| Share issue in subsidiary | | | | | 200 | 200 |
| **EQUITY AT 31 DECEMBER 2016** | **119 047** | **965 772** | **30 691** | **(707 992)** | **(652)** | **406 866** |

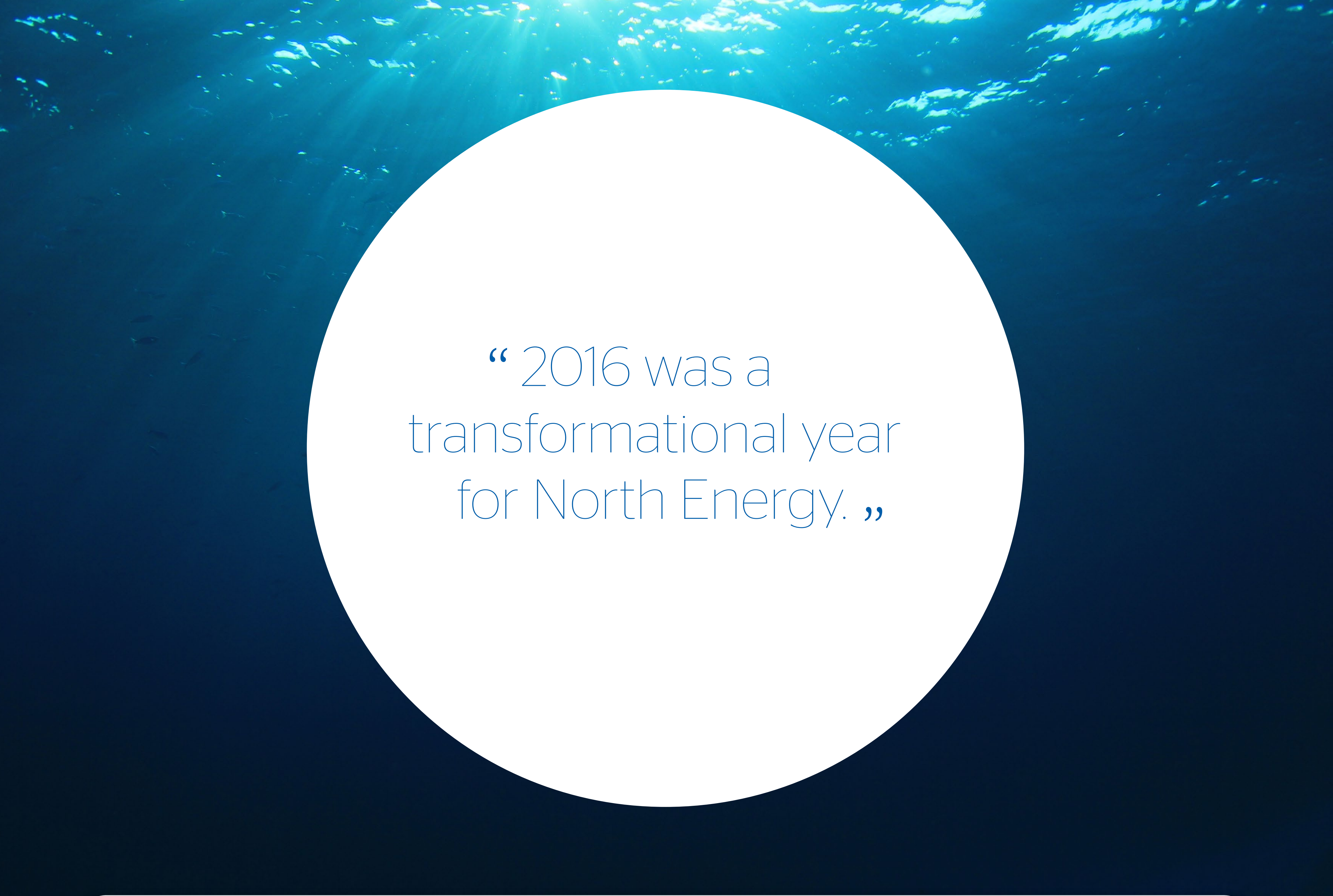
# Consolidated cash flow statement

NOK 1 000

| | Note | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit/(loss) before income tax | | 4 171 | (525 131) |
| Adjustments: | | | |
| Tax refunded | 15 | 609 540 | 373 624 |
| Depreciation | 16 | 2 552 | 6 050 |
| Gain from sales of licences | 22 | (14 039) | (5 367) |
| Impairment of capitalised exploration expenses | 17 | 0 | 171 365 |
| Pensions | | 1 328 | (12 193) |
| Transaction costs and interest on borrowings recognised in P&L | 18 | 20 744 | 21 037 |
| Changes in fair value of conversion rights and loans at amortised cost | 18 | 488 | 256 |
| Debt-financed exploration expenses without impact on cash flows | 23 | 0 | 9 531 |
| Gain/loss from sales of available for sale investments | 26 | (16 756) | 508 |
| Gain from bargain purchase | 27 | (100 808) | 0 |
| Changes in trade creditors | | 1 247 | (19 277) |
| Changes in other accruals | | 53 701 | 4 207 |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | | **562 168** | **24 610** |

| Cash flow from investing activities | Note | 2016 | 2015 |
|---|---|---|---|
| Purchase of property, plant and equipment | 16 | (55) | (277) |
| Proceeds from sales of property, plant and equipment | | 0 | 361 |
| Proceeds from sales of licences | 22 | 18 726 | 16 181 |
| Capitalised exploration and licence costs | 15,17 | (0) | (200 170) |
| Purchase of available for sale investments | 26 | (35 045) | (10 434) |
| Proceeds from sales of available for sale investments | | 27 596 | 335 |
| Proceeds/payments from other non-current receivables | 7 | (932) | 750 |
| Net cash flow arising on acquisition of subsidiary | 27 | 5 979 | 0 |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | | **16 268** | **(193 254)** |

| Cash flow from financing activities | | | |
|---|---|---|---|
| Funds drawn current borrowings | 11 | 83 807 | 580 000 |
| Repayments of current borrowings | 11 | (509 514) | (378 102) |
| Funds drawn convertible loans | 23 | 0 | 0 |
| Repayments of convertible loans | 23 | (41 529) | 0 |
| Transaction costs and interest on borrowings paid | 11,18 | (19 694) | (24 165) |
| Share issues in subsidiary, contribution from minority | | 200 | 0 |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | **(486 730)** | **177 733** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **91 706** | **9 089** |
| | | | |
| Cash and cash equivalents at 1 January | 9 | 34 829 | 25 740 |
| **CASH AND CASH EQUIVIVALENTS AT 31 DECEMBER** | **9** | **126 535** | **34 829** |



“ 2016 was a transformational year for North Energy. ”

# Notes – North Energy Group

## NOTE 1
General information

The consolidated financial statements of North Energy were approved by the board of directors and CEO at 22 March 2017.

North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office in Oslo. The company's shares were listed on Oslo Axess on 5 February 2010.

North Energy ASA is a holding company for a group of subsidiaries. The group's investment activities are reported through the subsidiary North Energy Capital AS, and the group's exploration activities are conducted by North E&P AS, a subsidiary of North Energy Capital AS.

## NOTE 2
Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**2.1 Basis for preparation**
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements pursuant to the Norwegian Accounting Act.

The financial statements have been prepared on a historical cost basis.

**2.2 Basis of consolidation**
The consolidated financial statements comprise the financial statements of North Energy ASA and its subsidiaries. Subsidiaries are all entities over which the group has the power to govern the financial and operating policies (control), generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group, and they are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between the group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition costs are expensed as incurred. The excess of the consideration transferred over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. Each acquisition is considered individually to determine whether the acquisition should be deemed to be a business combination or an asset acquisition. When acquisitions are deemed to be asset acquisitions, no deferred tax on initial differences between carrying values and tax bases are recorded, nor is any goodwill recorded at the date of acquisition.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### 2.3 Foreign currency

Functional currency and presentation currency
The group's presentation currency is Norwegian kroner (NOK).
This is also the parent company's and the subsidiaries functional currency.

### Transactions in foreign currency

Foreign currency transactions are translated into NOK using the exchange rates at the transaction date. Monetary balances in foreign currencies are translated into NOK at the exchange rates on the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

# NOTE 2

Summary of significant accounting policies (continued)

**2.4 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment charges. Depreciation is calculated on a straight line basis over the asset's expected useful life and adjusted for any impairment charges. Expected useful lives of long-lived assets are reviewed annually, and where they differ from previous estimates, depreciation periods are changed accordingly. Ordinary repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The costs of major renovations are included in the asset's carrying amount when it is probable that the company will derive future economic benefits. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Major assets with different expected useful lives are reported as separate components. Each component is depreciated on a straight line basis over its expected useful life.

Property, plant and equipment are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the asset's carrying amount and its recoverable amount is recognised in the in income statement as impairment. Property, plant and equipment that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.5 Capitalised exploration and licence costs**

**Exploration costs for oil and gas properties**

The group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells are expensed as incurred. Costs related to drilling of exploration wells are temporarily capitalised pending the evaluation of the potential existence of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licences are capitalised as intangible assets.

Capitalised costs of acquiring licences and drilling exploration wells are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the asset's carrying amount and its recoverable amount is recognised in the income statement as impairment.

Capitalised exploration and licence costs will be depreciated using the unit-of-production method as reserves are produced.

### 2.6 Farm in and farm out in the exploration phase

Agreements in connection with acquisition/sale of interests in licences in the exploration phase (farm in/farm out agreements), often involve a situation where the owner of a working interest (the farmor) transfers a portion of its working interest to another party (the farmee) in return for the farmee's performance of some agreed upon action. For example, the farmee may agree to cover/carry drilling expenses for the farmor limited to a fixed amount. In return, the farmor agrees to transfer a portion of the working interest in the property to the farmee. This well carry/carried interest is accounted for by the farmee as the costs occur and is classified in accordance with the policy for treatment of the exploration expenses (for North Energy, the successful efforts method). The farmor does not record any profit or loss but accounts for the well carry as an expense reduction when it occurs.

A farm in/farm out agreement is recognised when risks and rewards of ownership are transferred, which usually take place when necessary public approvals are given.

### 2.7 Interests in oil and gas licences

The group's interests in oil and gas licences are accounted for by recognising the group's share of the licences' individual expenses, assets, liabilities and cash flows. Each item is classified and presented in its respective line-items in the financial statements.

### 2.8 Leases (as lessee)

Leases in which most of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

### 2.9 Receivables

Receivables are initially recognised at fair value. The receivables are subsequently carried at amortised cost using the effective interest method. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and this loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows. The asset's carrying amount is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

### 2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

### 2.11 Borrowings and convertible loans

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction/issue costs associated with the borrowing. After initial recognition, interests-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Any difference between the consideration received net of transaction/issue costs associated with the borrowing and the redemption value, is recognised in the income statement over the term of the loan.

The conversion rights related to the convertible loans are classified as an financial obligation (derivative), and are measured at fair value with changes in fair value recognised in the income statement as financial items.

# NOTE 2

Summary of significant accounting policies (continued)

### 2.12 Taxes

IIncome taxes for the period comprises tax payable, refundable tax from the refund tax value of exploration expenses and changes in deferred tax.

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are calculated on the basis of existing temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax bases, together with tax losses carried forward at the balance sheet date. Deferred tax assets and liabilities are calculated on the basis of the tax rates and tax legislation that are expected to exist when the assets are realised or the liabilities are settled, based on the tax rates and tax legislation that have been enacted or substantially enacted on the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that the deferred tax asset can be utilised. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim the tax value of any unused tax losses related to its offshore activities to be paid in cash from the tax authorities when offshore activities subject to additional tax cease. Deferred tax assets that are based on offshore tax losses carried forward are therefore recognised in full.

The calculated tax refund from tax losses from exploration activities is classified as a current asset under “Tax receivable, refund tax value exploration expenses”.

# NOTE 2

Summary of significant accounting policies (continued)

### 2.13 Defined benefit pension plans

The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet .

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the income statement.

### 2.14 Defined contribution pension plans

The group's payments under defined contribution pension plans are recognised in the income statement as employee benefits expense for the year to which the contribution applies.

### 2.15 Provisions

A provision is recognised when the company has a present legal or constructive obligation as a result of past events, it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision owing to passage of time is recognised as a financial cost.

## NOTE 2

Summary of significant accounting policies (continued)

The group recognises a provision and an expense for severance payments when there exists an legal obligation to make severance payments.

The group recognises a provision and an expense for bonuses to employees, when the company is contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.16 Trade creditors

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.17 Available for sale investments

Available for sale investments are measured at fair value. Changes in fair value, other than impairment losses, are recognised in equity through the statement of comprehensive income.

### 2.18 Contingent liabilities

Contingent liabilities are not recognised in the financial statements. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

### 2.19 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the parent company using the weighted average number of ordinary shares outstanding during the year after deduction of the average number of treasury shares held over the period.The calculation of diluted earnings per share is consistent with the calculation of the basic earnings per share, but gives at the same time effect to all dilutive potential ordinary shares that were outstanding during the period, by adjusting the profit/loss and the weighted average number of shares outstanding for the effects of all dilutive potential shares, i.e.:

- The profit/loss for the period is adjusted for changes in profit/loss that would result from the conversion of the dilutive potential ordinary shares.
- The weighted average number of ordinary shares is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 2.20 Segment reporting

The group's only business segment is exploration for oil and gas on the Norwegian continental shelf. Based on this, no segment note is presented and this is in accordance with management's reporting.

### 2.21 Cost of equity transactions

Transaction costs directly linked to an equity transaction are recognised directly in equity, net after deducting tax.

### 2.22 Cash flow statement

The cash flow statement is prepared by using the indirect method.

### 2.23 Events after the balance sheet date

The financial statements are adjusted to reflect events after the balance sheet date that provide evidence of conditions that existed at the balance sheet date (adjusting events). The financial statements are not adjusted to reflect events after the balance sheet date that are indicative of conditions that arose after the balance sheet date (non-adjusting events). Non-adjusting events are disclosed if significant.

### 2.24 Changes in accounting policies and disclosures

#### (a) New and amended standards and interpretations adopted by the group

None of the new standards, amendments or interpretations to existing standards effective for the accounting periods starting 1 January 2016 did have any material impact on the group's financial statements.

#### (b) New and amended standards and interpretations issued but not adopted by the group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. The most significant standards are set out below.

## NOTE 2

Summary of significant accounting policies (continued)

**IFRS 9 Financial instruments:**

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. Effective date is 1 January 2018. The group is yet to assess IFRS 9's full impact.

**IFRS 15 Revenue from contracts with customers:**

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Effective date is 1 January 2018. IFRS 15 is expected to have no material effect on the financial statements.

**IFRS 16 Leases:**

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. Effective date is 1 January 2019. The group is assessing the impact of IFRS 16.

## NOTE 3

Financial risk management

**3.1 Financial risks**

Exploration for oil and gas involves a high degree of risk, and the group is subject to the general risk factors pertaining to this business, such as (i) volatility of oil and gas prices, (ii) uncertainty pertaining to estimated oil and gas reserves, (iii) operational risk related to oil and gas exploration and (iv) volatility in exchange rates. Furthermore, only a few prospects that are explored are ultimately developed into production.

Furthermore, the group is exposed to certain types of financial risks. Management involves receivables, loans, accounts payable and drawing rights to financial institutions. The business activities of the group involve exposure to credit, interest rate, liquidity and currency risk.

# NOTE 3

Financial risk management (continued)

**(a) Credit risk**

The group is mainly exposed to credit risk related to bank deposits and receivables from interests in licences. The exposure to credit risk is monitored on an ongoing basis. As all counterparties have a high credit rating, there are no expectations that any of the counterparties will not be able to fulfil their liabilities. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

**(b) Interest rate risk**

The group's exposure to interest rate risk is related to usage of the credit facility, with floating interest rate conditions. The group is therefore exposed to interest rate risk as part of its normal business activities and the aim is to keep this risk at an acceptable level.

The group has a revolving credit facility (exploration loan) which entitles the group to borrow up to NOK 200 million. See note 11 for further information. The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has. The group has no other interest-bearing borrowings with floating interest rate conditions.

**Sensitivity analysis:**

Interest rate sensitivity is calculated on the basis of exposure to interest-bearing debt with floating interest rate conditions on the balance sheet date.

2016: If NIBOR had been 50 basis points higher/lower,
the group's profit after tax would have been NOK 98 000 lower/higher.

2015: If NIBOR had been 50 basis points higher/lower,
the group's profit after tax would have been NOK 938 000 lower/higher.

## NOTE 3
Financial risk management (continued)

**(c) Liquidity risk**

The company's liquidity risk is the risk that it will not be able to meet its financial obligations as they fall due. Sufficient liquidity will be held in regular bank accounts at all times to cover expected payments relating to operational activities and investment activities for two weeks ahead. The exploration drawing facility is used when cash liquidity is needed. In addition, short-term (12 months) and long-term (five-year) forecasts are prepared on a regular basis to plan the group's liquidity requirements. These plans are updated regularly for various scenarios and form part of the day-today decision basis for the group's board of directors. Some reporting requirements are associated with the agreement with the bank syndicate that furnished the credit facility, including quarterly updates of a revolving liquidity budget for the next 12 months. The company's objective for the placement and management of excess capital is to maintain a very low risk profile and very good liquidity.

The convertible loans have been repaid in 2016. The group's other financial liabilities are short term. Funds drawn (credit facility) fall due within 12 months, while other financial liabilities fall due within 0 - 6 months.

**(d) Currency risk**

The parent company's and the subsidiaries functional currency is the NOK. The group is exposed to currency risk related to its activities because the value of potential discoveries is correlated with the USD and parts of the group's expenses are USD-based. The group has not entered into any agreements to reduce its exposure to foreign currencies. A weak Norwegian krone will increase expenses, and vice versa with a strong NOK.

**3.2 Capital management**

The group's aim for management of capital structure is to secure the business in order to yield profit to shareholders and contributions to other stakeholders. In addition, a capital structure at its optimum will reduce the costs of capital. To maintain or change the capital structure in the future, the group can pay dividends to its shareholders, issue new shares or sell assets/licences to reduce debt. The group may buy its own shares. The point of time for this is dependent on changes in market prices.

The group monitors it's capital structure using a equity ratio, which is total equity divided by total assets. As at 31 December 2016, the equity ratio was 88.1% (48.7% as at 31 December 2015).

The company will handle any increased future capital requirements through selling assets, raising new capital, taking up loans, entering into carry agreements, strategic alliances and any combination of these, and by adjusting the company's level of activity if required.

# NOTE 4
Critical accounting estimates and judgements

### 4.1 Critical accounting estimates and assumptions
The preparation of the financial statements in accordance with IFRS requires management to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Estimates and assumptions which represent a considerable risk for material changes in carrying amounts of assets and liabilities during the next fiscal year are presented below.

#### a) Tax receivable from refund tax value exploration expenses
The Norwegian taxation authorities may have a different understanding than the company regarding the definition of indirect exploration expenses pursuant to the Norwegian Petroleum Tax Act. See note 15.

#### b) Deferred tax/tax assets
Most critical estimates influencing the carrying amount are related to valuations/judgement of utilisation of deferred tax assets. See note 15.

#### c) Capitalised exploration and licence costs
Capitalised exploration and licence costs are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. See note 17.

#### d) Pensions
The present value of pension liabilities/assets under defined benefit pension plans depends on several different factors determined by different actuary assumptions. The assumptions used to estimate net pension costs/revenue include the discount rate. Changes in this assumption will influence the carrying amount of the pension liabilities/assets.

# NOTE 4

Critical accounting estimates and judgements

The group determines a suitable discount rate by the year end. This is the rate to be used when calculating the present value of future estimated outgoing cash flows needed to settle the pension liabilities. When determining a suitable discount rate, the group considers the interest rate of registered bonds of high quality issued in the same currency as the pension payment, and with the approximately same due date as the related pension liability.

Other pension assumptions are partly based on market terms.
Additional information is presented in note 21.

**e) Business combination and gain from bargain purchase**
The assumptions used in the estimation of fair value of potential liabilities, and the gain from bargain purchase recognised as a result of the acquisition of North E&P, is associated with uncertainty. Additional information is presented in note 27.

**4.2 Critical judgements in applying the company's accounting policies**
Management has made judgements also in the process of applying the group's accounting policies. Such judgements with the most significant effect on the amounts recognised in the financial statements are presented in the following:

Accounting policy for exploration expenses
The group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells resulting in commercially discoveries of oil and gas reserves, are expensed as incurred.

# NOTE 5

Payroll and related expenses, remuneration of directors and management

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Salaries | 31 574 | 39 622 |
| Payroll tax | 6 055 | 2 992 |
| Pension costs (see note 21) | (5 165) | (3 822) |
| Other benefits | 17 | 1 500 |
| **Total** | **32 481** | **40 292** |
| Average number of employees | 15,3 | 36,7 |

# NOTE 5

Payroll and related expenses, remuneration of directors and management (continued)

Remuneration to directors and management in 2016:

| Amounts in NOK 1 000 | Directors' fees | Salaries | Pension | Other * |
|---|---|---|---|---|
| Management ** | | | | |
| Knut Sæberg (CEO) | | 2 573 | 564 | 21 |
| **Board of directors** | | | | |
| Anders Onarheim (chair) | 540 | | | |
| Elin Karfjell (director) | 210 | | | |
| Jogeir Romestrand (director) | 193 | | | |
| Johan Terje Bjerka (director) | 48 | | | |
| **Total** | **991** | **2573** | **564** | **21** |

* Other includes allowances to cover telephone and internet, group life insurance and travel insurance.
** Figures for remuneration to management are exclusive payroll tax.

**Remuneration to CEO:**

The company's CEO has an agreement with an annual salary of NOK 2,54 million. Other benefits include regular allowances to cover telephone, internet, pension, group life insurance and travel insurance.
In addition, he is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to 4 months of salary. In the event of resignation at the request of the board of directors, the CEO has a right to a severance payment equivalent to two years of gross fixed salary. If CEO resigns, there is no severance payment.

**Bonus programme:**

The management is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to 4 months of salary. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used. In February 2017 cash bonus for 2016 has been granted and paid to employees based on their individual level of achievement of the bonus criteria.

All loans to employees were settled in 2015 and there are no loans to employees at 31 December 2016 and 31 December 2015.

# NOTE 5

Payroll and related expenses, remuneration of directors and management (continued)

Remuneration to directors and management in 2015:

| Amounts in NOK 1 000 | Directors' fees | Salaries | Pension | Other * |
|---|---|---|---|---|
| **Management *** ** | | | | |
| Knut Sæberg (CEO and CFO) | | 2 573 | 538 | 16 |
| Erik Henriksen (exploration manager) | | 2 068 | 406 | 18 |
| Kristen Berli (senior vice president business development) | | 2 464 | 535 | 366 |
| Astrid M Tugwell (former vice president operations and HSEQ) ** | | 1 529 | 266 | 16 |
| Kristin Ingebrigtsen (former vice president organisation and communication) ** | | 1 518 | 278 | 19 |
| Erik Karlstrøm (former CEO) ** | | 1 386 | 240 | 25 |
| | | | | |
| **Board of directors** | | | | |
| Anders Onarheim (chair) | 506 | | | |
| Jogeir Romestrand (director) | 263 | | | |
| Elin Karfjell (director) | 245 | | | |
| Johan P. Barlindhaug (former director) | 369 | | | |
| Heidi Marie Petersen (former director) | 228 | | | |
| Alexander Krogh (former director) | 150 | | | |
| **Total** | **1 760** | **11 538** | **2 264** | **462** |

* Other includes benefits from free car, loan interest rate benefit, allowances to cover telephone and internet, training fee, group life insurance and travel insurance. For Kristen Berli other include a stay on bonus paid.
** Astrid M Tugwell and Kristin Ingebrigtsen left the Company on 31 December 2015. Erik Karlstrøm left the Company on 30 April 2015.
*** Figures for remuneration to management are exclusive payroll tax.

**The board of directors' declaration regarding determination of salary and other remuneration to management employees**

The board of directors shall prepare a declaration in accordance with the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven) §6-16a. In accordance with the Norwegian Accounting Act §7-31b, the content of this declaration is presented.

The main principle for the company is that remuneration to management is competitive in a way that the company is able to attract and retain competent management employees. The remuneration shall primarely be based on achievement of results but also on individual criteria such as experience and area of responsibility. The remuneration system for management employees shall further encourage a strong and lasting profit oriented organisation which contributes to increasing the shareholder value.

Total remuneration to management employees includes:

**(1) Market-based fixed salary.**

**(2) Bonus.** The management is included in the company's general employee bonus programme. The bonus is limited to 4 months of salary. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used.

**(3) Pension and insurance.** The management is included in the company's general pension and insurance scheme.

**(4) Severance payment.** The CEO has agreement covering severance payment. In the event of resignation at the request of the board of directors, he has the right to a severance payment equivalent to two years of gross fixed salary.

**(5) Other benefits** such as regular allowances to cover telephone, internet and travel insurance.

# NOTE 6

Other operating expenses and remuneration to auditor

Other operating expenses consist of:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Travelling expenses | 1 187 | 3 808 |
| Lease expenses (see note 20) | 5 880 | 10 834 |
| Consultant and other fees | 21 008 | 14 781 |
| Advertising costs | 0 | 1 063 |
| Other administrative expenses | 12 706 | 13 902 |
| **Total** | **40 781** | **44 388** |

Remuneration to auditor is allocated as specified below:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Audit | 572 | 642 |
| Attestations | 49 | 54 |
| Assistance share issues and prospectus | 26 | 0 |
| Other assistance | 122 | 68 |
| **Total, excl. VAT** | **769** | **764** |

## NOTE 7
Other non-current receivables

Other non-current receivables consist of:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Deposit | 1 395 | 463 |
| Pension assets (note 21) | 1 023 | 7 171 |
| **Total** | **2 418** | **7 634** |

## NOTE 8
Prepayments and other receivables

Prepayments and other receivables consist of:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Prepaid expenses | 1 638 | 743 |
| VAT receivable | 1 410 | 2 614 |
| Receivables, from interests in licences | 2 065 | 54 273 |
| Other items | 259 | (0) |
| **Total** | **5 372** | **57 631** |

## NOTE 9
Cash and cash equivalents

Cash and cash equivalents:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Bank deposits | 126 535 | 34 829 |
| **Total cash and cash equivalents** | **126 535** | **34 829** |
| Of this: | | |
| Restricted cash for taxes withheld from employees salaries | 1 052 | 2 307 |

## NOTE 10
Share capital and shareholder information

| | **2016** | **2015** |
|---|---|---|
| Number of outstanding shares at 1 January | 119 047 065 | 119 047 065 |
| New shares issued during the year: | | |
| Issued in exchange for cash | 0 | 0 |
| Issued in connection with conversion of convertible loan | 0 | 0 |
| Number of outstanding shares at 31 December | 119 047 065 | 119 047 065 |
| | | |
| Nominal value NOK per share at 31 December | 1,00 | 1,00 |
| Share capital NOK at 31 December | 119 047 065 | 119 047 065 |

# NOTE 10

Share capital and shareholder information

North Energy has one share class with equal rights for all shares. In February 2017 the Extraordinary General Meeting resolved to distribute a cash dividend to the shareholders of NOK 0.25 per share. The dividend amounts to a total of NOK 29.76 million. The dividend is not recognized as a liability in the financial statements as at 31 December 2016.

Main shareholders as of 31 December 2016:

| | Number of shares | % Share |
|---|---|---|
| AB INVESTMENT AS | 15 210 247 | 12,78 % |
| CITIBANK, N.A. | 9 000 000 | 7,56 % |
| CELISA CAPITAL AS | 6 173 100 | 5,19 % |
| THE BANK OF NEW YORK MELLON N.V. | 6 130 000 | 5,15 % |
| REX INTERNATIONAL HOLDING LTD. | 6 000 000 | 5,04 % |
| THE NORTHERN TRUST COMP, LONDON BR | 5 655 820 | 4,75 % |
| ISFJORDEN AS | 4 551 839 | 3,82 % |
| JPB AS | 3 450 000 | 2,90 % |
| GOLDMAN, SACHS & CO. | 3 096 175 | 2,60 % |
| ELLIOTT ASSOCIATES, L.P. | 2 978 011 | 2,50 % |
| SKS EIENDOM AS | 2 624 920 | 2,20 % |
| EUROCLEAR BANK N.V. | 2 375 840 | 2,00 % |
| ALTA INVEST AS | 2 339 231 | 1,96 % |
| STATE STREET BANK AND TRUST COMP | 2 329 722 | 1,96 % |
| PENSION FUND ASSOCIATION | 1 979 385 | 1,66 % |
| CORUNA AS | 1 781 607 | 1,50 % |
| VIKING INVESTMENTS (CAYMAN) LTD | 1 643 686 | 1,38 % |
| MP PENSJON PK | 1 443 000 | 1,21 % |
| ORIGO KAPITAL AS | 1 343 569 | 1,13 % |
| ROME AS | 1 300 000 | 1,09 % |
| **Total 20 largest shareholders** | **81 406 152** | **68,38 %** |
| **Other shareholders** | **37 640 913** | **31,62 %** |
| **Total** | **119 047 065** | **100,00 %** |

# NOTE 10

Share capital and
shareholder information (continued)

Number of shares owned by management and directors at 31 December 2016:

| | | |
|---|---|---|
| **Management** | | |
| Knut Sæberg (CEO) | 718 822 | 0,60 % |
| Didrik Leikvang (partner in North Advisors AS) | 4 716 208 | 3,96 % |
| Rachid Bendriss (partner in North Advisors AS) | 6 173 100 | 5,19 % |
| | | |
| **Board of directors** | | |
| Anders Onarheim (chair and partner in North Advisors AS), throught AB Investment AS and Spitsbergen AS | 15 621 169 | 13,12 % |
| Jogeir Romestrand (director), through Rome AS | 1 300 000 | 1,09 % |
| Elin Karfjell (director), through Elika AS | 267 700 | 0,22 % |
| **Total** | **28 796 999** | **24,19 %** |

Number of shares owned by management and directors at 31 December 2015:

| | | |
|---|---|---|
| **Management** | | |
| Knut Sæberg (CEO and CFO) | 242 869 | 0,20 % |
| Kristen Berli (senior vice president business development) | 313 363 | 0,26 % |
| | | |
| Board of directors | | |
| Anders Onarheim (chair), througt AB Investment AS and Isfjorden AS | 6 428 445 | 5,40 % |
| Jogeir Romestrand (director), through Rome AS | 750 000 | 0,63 % |
| Elin Karfjell (director), through Elika AS | 200 000 | 0,17 % |
| **Total** | **7 934 677** | **6,67 %** |

## NOTE 11

Current borrowings

Current borrowings include:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Revolving credit facility (exploration loan), funds drawn | 26 191 | 256 898 |
| Revolving credit facility (exploration loan), transaction costs | (1 527) | (3 603) |
| **Balance 31 December** | **24 663** | **253 295** |

In March 2016 North Energy ASA and the subsidiary North E&P AS signed an agreement to renew their exploration financing facility for the period 2016-17. The facility is limited up to NOK 200 million. Interest rate is NIBOR + 1.50%.

In November 2016 North Energy ASA has repaid its loan balance, and in February 2017 North Energy ASA ceased being a party to the facility agreement.

The loan is secured by a pledge in tax receivables from refund pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has.

The exploration financing facility may only be used to finance exploration costs.

## NOTE 12

Other current liabilities

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Public duties payable | 2 479 | 3 264 |
| Accruals, from interests in licences | 359 | 13 761 |
| Holiday pay and bonus payable | 2 448 | 3 661 |
| VAT payable | 109 | 0 |
| Other accruals for incurred costs | 22 144 | 11 015 |
| **Total** | **27 539** | **31 700** |

## NOTE 13

Earnings per share

| | 2016 | 2015 |
|---|---|---|
| Profit/(loss) for the year attributable to owners of North Energy ASA (NOK 1 000) | 83 156 | (126 052) |
| Weighted average number of shares outstanding | 119 047 065 | 119 047 065 |
| | | |
| Earnings per share (NOK per share) | | |
| - Basic | 0,70 | (1,06) |
| - Diluted | 0,70 | (1,06) |

The dilution effect of potentially shares from convertible loans was in 2015 not presented in the income statement, as the potentially shares would have reduced loss per share.

## NOTE 14

Related parties

The company's transactions with related parties:
Amounts in NOK 1 000

**(a) Purchases of services**

| Purchase of services from | Description of services | 2016 | 2015 |
|---|---|---|---|
| Kharybdis AS (Didrik Leikvang / shareholder) | Consultancy services | 600 | 1 150 |
| North Advisors AS (see note 28) | Consultancy services | 6 257 | 0 |

The consultancy agreement with Kharybdis AS was terminated as part of the establishment of the advisory agreement with North Advisors AS. Services are purchased at market terms.

**(b) Remuneration to management and directors**

Refer to note 5.

**(c) Overview of subsidiaries**

The following subsidiaries are included in the consolidated financial statements:

# NOTE 14

Related parties (continued)

**(c) Overview of subsidiaries**

The following subsidiaries are included in the consolidated financial statements:

| Company | Location | Equity and voting share |
|---|---|---|
| North Energy Capital AS *** | Norway | 80 % |
| 4sea Energy AS (owned 100% by North Energy Capital AS) * | Norway | 80 % |
| North E&P AS (owned 100% by North Energy Capital AS) ** | Norway | 80 % |

* 100% of the shares in 4sea Energy AS was acquired by North Energy ASA in February 2010.
** 100% of the shares in North E&P AS was acquired by North Energy ASA in February 2016 (see note 27).
*** North Energy Capital AS was established in June 2016. North Energy ASA and North Advisors AS have entered into an transaction agreement whereby North Energy ASA has transferred substantially all of its financial assets, including the shares in 4sea Energy AS and North E&P AS, to North Energy Capital AS, by way of a contribution in kind. Settlement of the transaction has been made through a consideration of new preference shares and 80 per cent of the ordinary shares in North Energy Capital AS. North Advisors AS holds the remaining 20 per cent of the ordinary shares (see note 28).

# NOTE 15

Tax

Specification of income tax:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Calculated refund tax value of exploration costs this year | 56 533 | 382 642 |
| Of this, refund not recognised in income statement (acquisition of licences recognised net of tax) | 0 | 0 |
| Correction refund previous years | 124 | 0 |
| Change deferred tax asset in balance | 20 189 | 18 055 |
| Of this, deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax) | (0) | 0 |
| Of this, deferred tax asset not recognised in income statement (sale of licences recognised net of tax) | (3) | (189) |
| Of this, deferred tax asset related to items in comprehensive income recognised in comprehensive income | (231) | (1 429) |
| Of this, deferred tax asset related to equity transactions recognised directly in equity | 0 | 0 |
| **Total income tax credit** | **76 612** | **399 079** |

# NOTE 15

Tax (continued)

Specification of tax receivable refund tax value exploration expenses:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Calculated refund tax value of exploration costs this year | 67 887 | 382 642 |
| Correction refund previous years, not yet assessed | 0 | 0 |
| **Total tax receivable refund tax value exploration expenses** | **67 887** | **382 642** |

Oil-exploration companies operating on the Norwegian Continental Shelf may claim a 78% refund of their exploration costs limited to taxable losses for the year. The refund is paid in November the following year.

Specification of temporary differences, tax losses carried forward and deferred tax:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Property, plant and equipment | (5 742) | (6 078) |
| Capitalised exploration and licence costs | 0 | 4 |
| Pensions | 1 023 | 2 647 |
| Current borrowings | 1 527 | 3 603 |
| Convertible loans and conversion rights | 0 | 488 |
| Other current liabilities | (13 000) | 0 |
| Available for sale investments | 14 007 | 0 |
| Tax losses carried forward, onshore | (50 105) | (26 279) |
| Tax losses carried forward, offshore only 24% basis | (223 124) | (170 927) |
| Tax losses carried forward, offshore only 54% basis | (952) | (944) |
| Tax losses carried forward, offshore both 24% and 54% basis | (182 530) | (134 576) |
| Total basis for deferred tax | (458 896) | (332 061) |
| Deferred tax liability (-) / tax asset (+) | 219 082 | 156 388 |
| Uncapitalised deferred tax asset (valuation allowance) * | (11 791) | (6 585) |
| **Deferred tax liability (-) / tax asset (+) in balance** | **207 291** | **149 803** |

# NOTE 15

Tax (continued)

Companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim the tax value of any unused tax losses related to its offshore activities to be paid in cash from the tax authorities when offshore activities subject to additional tax cease. Deferred tax assets that are based on offshore tax losses carried forward are therefore recognised in full.

* Uncapitalised deferred tax asset relates mainly to onshore tax losses carried forward in subsidiary 4sea Energy AS and in parent company North Energy ASA. Due to the transaction whereby North Energy ASA has transferred all of its petroleum related activities to North E&P AS, North Energy ASAs offshore activities subject to additional tax ceased with effect 1 January 2016.

Reconciliation of effective tax rate:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Profit before tax | 4 171 | (525 131) |
| Expected income tax credit 78% | (3 253) | 409 602 |
| Adjusted for tax effects (25% - 78%) of the following items: | | |
| Permanent differences | 91 895 | 2 162 |
| Correction previous years | 84 | 0 |
| Interest on tax losses carried forward offshore | 1 690 | 1 708 |
| Finance items and different tax rates within the group | (5 900) | (12 399) |
| Changed tax rates from 1 January 2017 and 1 January 2016 | (2 698) | (3 845) |
| Change in valuation allowance for deferred tax assets | (5 206) | 1 849 |
| **Total income tax credit** | **76 612** | **399 079** |

# NOTE 16

Property, plant and equipment

Equipment, office machines, etc

**Amounts in NOK 1 000**

| | |
|---|---|
| **2016** | |
| Cost: | |
| At 1.1.2016 | 51 553 |
| Additions | 55 |
| Disposals | |
| At 31.12.2016 | 51 608 |
| | |
| Depreciation and impairment: | |
| At 1.1.2016 | (47 785) |
| Depreciation this year | (2 552) |
| Impairment this year | |
| Disposals | |
| At 31.12.2016 | (50 337) |
| Carrying amount at 31.12.2016 | 1 271 |
| | |
| **2015** | |
| Cost: | |
| At 1.1.2015 | 51 637 |
| Additions | 277 |
| Disposals | (361) |
| At 31.12.2015 | 51 553 |
| | |
| Depreciation and impairment: | |
| At 1.1.2015 | (41 735) |
| Depreciation this year | (6 050) |
| Impairment this year | 0 |
| Disposals | 0 |
| At 31.12.2015 | (47 785) |
| Carrying amount at 31.12.2015 | 3 768 |
| | |
| Economic life | 3-10 years |
| Depreciation method | linear |

# NOTE 17

Capitalised and expensed exploration and licence costs

**(a) Capitalised exploration and licence costs**

Amounts in NOK 1 000

| | |
|---|---|
| **2016** | |
| Cost: | |
| At 1.1.2016 | 4 |
| Additions, capitalised exploration and licence costs | 0 |
| Disposals, impairment | 0 |
| Disposals, sale | (4) |
| At 31.12.2016 | 0 |
| | |
| Amortisation and impairment: | |
| At 1.1.2016 | |
| Amortisation this year | 0 |
| Impairment this year | 0 |
| Disposals | 0 |
| At 31.12.2016 | 0 |
| Carrying amount at 31.12.2016 | 0 |

# NOTE 17

Capitalised and expensed exploration and licence costs (continued)

**2015**

| | |
|---|---|
| Cost: | |
| At 1.1.2015 | 11 540 |
| Additions, capitalised exploration and licence costs * | 200 170 |
| Disposals, impairment ** | (171 365) |
| Disposals, sale ** | (40 341) |
| At 31.12.2015 | 4 |
| | |
| Amortisation and impairment: | |
| At 1.1.2015 | 0 |
| Amortisation this year | 0 |
| Impairment this year ** | (171 365) |
| Disposals ** | 171 365 |
| At 31.12.2015 | 0 |
| Carrying amount at 31.12.2015 | 4 |

* Additions relate mainly to drilling of exploration wells in PL 591 (Zumba), PL 616 (Haribo), PL 510 (Tvillingen South) and PL 708 (Seiland East).
** Disposals relate mainly to impairment of capitalised expenses in PL 591 (Zumba), PL 616 (Haribo) and PL 510 (Tvillingen South) due to dry and non-commercial well results, and sale of PL 708 (Seiland East). Depreciation method: capitalised exploration and licence costs will be depreciated using the unit-of-production method, if and when reserves are produced.

**(b) Expensed exploration and licence costs**

Specification of expensed exploration and licence costs:

| **Amounts in NOK 1 000** | 2016 | 2015 |
|---|---|---|
| Share of exploration expenses from participation in licences, incl seismic, G&G, dry wells, carry | 10 283 | 208 165 |
| Impairment of capitalised exploration expenses | 0 | 171 365 |
| Seismic, EM data library and other exploration costs | 18 806 | 35 709 |
| **Total exploration and licence costs** | **29 089** | **415 240** |

# NOTE 18

Finance income and costs

Finance income:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Interest income bank deposits | 353 | 247 |
| Interest income on tax refund | 3 822 | 4 478 |
| Interest income on bonds | 2 156 | 0 |
| Other interest income | 0 | 20 |
| Foreign exchange gain | 12 328 | 12 630 |
| Finance income, from interests in licences | 70 | 0 |
| Gain from sales of available for sale investments | 16 756 | 0 |
| Change in fair value of conversion rights | 0 | 134 |
| Other finance income | 2 132 | 75 |
| **Total finance income** | **37 617** | **17 585** |

Finance costs:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Interest expenses and transaction costs on current borrowings | 17 774 | 17 796 |
| Interest expenses and amortised cost convertible loans | 3 458 | 3 632 |
| Finance expenses, from interests in licences | 0 | 1 333 |
| Loss from sales of available for sale investments | 0 | 508 |
| Foreign exchange loss | 21 632 | 18 154 |
| Other finance costs | 527 | 690 |
| **Total finance costs** | **43 391** | **42 113** |

# NOTE 19

Financial instruments

**(a) Categories of financial instruments**

at 31 December 2016:

| Amounts in NOK 1 000 | Loans and receivables | Available-for-sale financial assets |
|---|---|---|
| Assets: | | |
| Available for sale investments | | 51 262 |
| Other current receivables (see note 8) * | 2 325 | |
| Cash and cash equivalents | 126 535 | |
| **Total** | **128 859** | **51 262** |

| Amounts in NOK 1 000 | "Financial liabilities measured at amortised cost" | Financial liabilities at fair value through profit or loss |
|---|---|---|
| Liabilities: | | |
| Convertible loans | 0 | |
| Trade creditors | 2 967 | |
| Other current liabilities (see note 12) * | 2 806 | |
| Current borrowings | 24 663 | |
| **Total** | **30 436** | **0** |

at 31 December 2015

| Amounts in NOK 1 000 | Loans and receivables | Available-for-sale financial assets |
|---|---|---|
| Assets: | | |
| Available for sale investments | | 10 886 |
| Other current receivables (see note 8) * | 54 273 | |
| Cash and cash equivalents | 34 829 | |
| **Total** | **89 102** | **10 886** |

* Pension assets, deposit, prepaid expenses and VAT receivable are excluded since they are not defined as financial instruments.

# NOTE 19

Financial instruments (continued)

| Amounts in NOK 1 000 | "Financial liabilities measured at amortised cost" | Financial liabilities at fair value through profit or loss |
|---|---|---|
| Liabilities: | | |
| Convertible loans | 41 041 | |
| Trade creditors | 1 720 | |
| Other current liabilities (see note 12) * | 17 422 | |
| Current borrowings | 253 295 | |
| **Total** | **313 477** | **0** |

* Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

**(b) Fair value of financial instruments**

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value, since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors, other current liabilities and current borrowings is approximately equal to fair value, since the effect of discounting is not significant, due to short term to maturity and no significant change in credit spread.

Fair value of the stock exchange-listed shares is the stock market price at the balance sheet date (level 1 in the fair value hierarchy). Fair value of the bonds is the market price at the balance sheet date according to VPS (The Norwegian Central Securities Depository) (level 2 in the fair value hierarchy).

**(c) Creditworthiness of financial assets**

The group does not have a system that separates receivables and loans by counterparty credit rating. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

| | 2016 | 2015 |
|---|---|---|
| Bank deposits: | 126 535 | 34 829 |

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| No external credit rating | | 0 |
| A | 126 535 | 34 829 |
| AA | | 0 |
| **Total** | **126 535** | **34 829** |

**(d) Financial risk factors**

See note 3 for financial risk factors and risk management, sensitivity analysis and capital management.

# NOTE 20

Leases

The group has no finance leases.

The group has entered into operating leases for office premises, cars, machinery and office furniture.
The leases do not impose any restrictions on the company's dividend policy or financing opportunities.

Lease costs consist of the following:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Lease office premises (inclusive joint costs) | 5 692 | 11 349 |
| Lease machinery and office furniture | 188 | 3 |
| Lease cars | 0 | 45 |
| Sublease office premises | 0 | (563) |
| **Total lease costs** | **5 880** | **10 834** |

Future minimum rents related to non-cancellable leases and subleases fall due as follows:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Within 1 year | **2 229** | **2 144** |
| 1 to 5 years | 1 950 | 3 838 |
| After 5 years | 0 | 0 |
| **Total** | **4 179** | **5 982** |

# NOTE 21

Pension

The group has defined benefit pension plans. Future pension payments are mainly influenced by years of service, salary and payments from National Insurance. The defined benefit pension plans include at 31 December 2016 two employees (at 31 December 2015: 17 employees).

The group also has defined contribution pension plans. During 2016 the pension plans for all employees have been converted into defined contribution pension plans, with exception of two employees still included in the defined benefit pension plans. The pension arrangements fulfil the requirements of the Norwegian Act on mandatory occupational pensions.

| Actuarial assumptions for defined benefit plans: | **2016** | **2015** |
|---|---|---|
| Discount rate | 2,10 % | 2,70 % |
| Expected annual salary increases | 2,25 % | 2,50 % |
| Expected annual adjustment of pension benefits | 2,20 % | 2,25 % |
| Expected rate of adjustment to NI base rate (G) | 2,00 % | 2,25 % |
| Mortality assumptions are based on mortality table | K2013 BE | K2013 BE |
| Disability assumptions are based on disability table | IR02 | IR02 |

Specification of net pension liability / (assets) for defined benefit plans:

| **Amounts NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Present value of funded obligations at 31.12 | 6 139 | 31 798 |
| Estimated fair value of plan assets at 31.12 | 7 162 | 34 445 |
| **Net pension liability / (assets)** | **(1 023)** | **(2 647)** |

Classification of net pension liability / (assets) in the balance sheet for defined benefit plans:

| **Amounts NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Other non-current receivables (note 7) | 1 023 | **7 171** |
| Pension liabilities | **(0)** | **4 524** |
| **Net pension liability / (assets)** | **(1 023)** | **(2 647)** |

The pension plans was over funded by NOK 1.023 million at 31 December 2016. At 31 December 2015 one individual pension plan was over funded by NOK 7.171 million. This over funding could be used to cover future liabilities, but not liabilities in other pension plans, and the amount was therefore classified with other non-current receivables.

# NOTE 21

Pension (continued)

Movement in the liability for defined benefit obligations during the year:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Defined benefit obligations at 1 January | 31 798 | 50 912 |
| Current service costs | (309) | 8 555 |
| Interest expense | 197 | 1 165 |
| Changes in pension plan | 0 | 0 |
| Curtailment, settlements, conversion to defined contribution | (25 706) | (22 392) |
| Remeasurements, actuarial loss/(gain) | 158 | (6 442) |
| **Liability for defined benefit obligations at 31 December** | **6 139** | **31 798** |

Movement in fair value of plan assets for defined benefit obligations:

| **Amounts NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Fair value of plan assets at 1 January | 34 445 | 43 198 |
| Interest income | 141 | 596 |
| Changes in pension plan | 0 | 0 |
| Curtailment, settlements, conversion to defined contribution | (30 058) | (9 446) |
| Remeasurements, actuarial gain/(loss) | (138) | (8 274) |
| Employer contributions | 2 772 | 8 371 |
| **Fair value of plan assets at 31 December** | **7 162** | **34 445** |

# NOTE 21

Pension (continued)

| Plan assets in defined benefit plans are comprised as follows: | 2016 | 2015 |
|---|---|---|
| Shares | 4,5 % | 7,1 % |
| Alternative investments | 3,8 % | 4,2 % |
| Short-term bonds | 6,5 % | 14,4 % |
| Money market | 24,3 % | 22,4 % |
| Long-term bonds | 32,7 % | 34,8 % |
| Loans and receivables | 18,0 % | 0,0 % |
| Property | 9,9 % | 15,0 % |
| Other | 0,3 % | 2,1 % |
| Total | 100,0 % | 100,0 % |

| | 2016 | 2015 |
|---|---|---|
| Expected contributions to funded plans next year | 736 | 2 619 |

Pension expense recognised in income statement:

| **Amounts in NOK 1 000, incl. social security** | 2016 | 2015 |
|---|---|---|
| Current service costs | (309) | 8 555 |
| Net interest expense | 56 | 568 |
| Changes in pension plan | 0 | 0 |
| Curtailment, settlements, conversion to defined contribution | (6 314) | (12 945) |
| Total pension income arising from defined benefit plans included in payroll and related cost | (6 566) | (3 822) |
| Pension expense arising from defined contribution pension plans included in payroll and related cost | 1 402 | 0 |
| **Total pension income included in payroll and related cost** | **(5 165)** | **(3 822)** |

## NOTE 22
Gain from sales of licences

**Gain from sales of licences in 2016 relate to sale of:**

- 10 per cent interest in PL 707 to Lime Petroleum Norway AS
- 25 per cent interest in PL 507 to Aker BP ASA (former Det norske oljeselskap ASA)
- 10 per cent interest in PL 722 to Aker BP ASA (former Det norske oljeselskap ASA)
- 20 per cent interest in PL 784 to Statoil Petroleum AS
- 20 per cent interest in PL 798 to Statoil Petroleum AS
- 20 per cent interest in PL 799 to Statoil Petroleum AS
- 20 per cent interest in PL 789 to Fortis Petroleum Norway AS
- 17.5 per cent interest in PL 378 to Wintershall Norge AS
- 20 per cent interest in PL 719 to Aker BP ASA (former Det norske oljeselskap ASA)
- 20 per cent interest in PL 762 to Fortis Petroleum Norway AS

**Gain from sales of licences in 2015 relate to sale of:**

- 5 per cent interest in PL 507 to Explora Petroleum AS
- 5 per cent interest in PL 507 to Tullow Oil Norge AS
- 10 per cent interest in PL 708 to Pure E&P Norway AS
- 10 per cent interest in PL 722 to to Aker BP ASA (former Det norske oljeselskap ASA)

## NOTE 23
Convertible loans

Convertible loans include:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Convertible loan from TGS Nopec | 0 | 26 948 |
| Convertible loan from Rex Technologies Management | 0 | 14 581 |
| Fair value of conversion rights at time of borrowing | 0 | «488» |
| Balance 31 December | 0 | 41 041 |

## NOTE 23
Convertible loans (continued)

The convertible loans from TGS Nopec and Rex Technologies Management have been repaid in fourth quarter 2016.

The conditions of the loans were eight per cent annual interest and maturity in March 2017, during which repayments may be made but were not mandatory. The lender had an annual conversion right on the loan which had accumulated over a 12-month period. The conversion price was NOK 8 per share, however if the share price exceeds NOK 16 per share, the conversion price shall be adjusted upwards equal to the share price minus NOK 8. The convertible loan from TGS Nopec had a borrowing limit up to NOK 200 million, and the convertible loan from Rex Technologies Management had a borrowing limit up to NOK 100 million.

## NOTE 24
Contingent liabilities

The group has provided for certain contingent liabilities. These provisions have been made to cover possible outcome of ongoing contractual disputes. The amount provided for is based on the managements consideration of the claims. However, variations from the most likely outcome of NOK 12 million in the range of -12 to +5 NOK million is not regarded as unlikely.

## NOTE 25
Shares in licenses and obligations

Shares in licenses at 31 December 2016:

| License | Share |
|---|---|
| PL 713 | 20 % |
| PL 757 | 30 % |
| PL 770 | 20 % |
| PL 805 | 40 % |

**Obligations at 31 December 2016:**
The group has only minor obligations from the current licence portfolio. There are no commitments for any drilling operations in the existing licence portfolio.

**Obligations at 31 December 2015:**
The group has only minor obligations from the current licence portfolio. There are no commitments for any drilling operations in either the existing licence portfolio nor the new portfolio coming from the Explora acquisition.

Shares in licenses at 31 December 2015:

| License | Share |
|---|---|
| PL 503/503B/503C | 12,5 % |
| PL 510 | 20 % |
| PL 590/590B | 30 % |
| PL 591/591B/591C | 15 % |
| PL 601 | 20 % |
| PL 616 | 15 % |
| PL 656 | 10 % |
| PL 693 | 15 % |
| PL 707 | 10 % |
| PL 713 | 20 % |
| PL 719 | 20 % |
| PL 762 | 20 % |
| PL 769 | 20 % |
| PL 770 | 20 % |

## NOTE 26

Available for sale investments

Available for sale investments expenses include:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Stock exchange-listed shares | 16 862 | 10 886 |
| Bonds | 34 400 | 0 |
| **Total carrying amount** | **51 262** | **10 886** |

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Change in fair value recognised in equity through the statement of comprehensive income | 11 033 | 1 296 |
| Gain from sales of available for sale investments recognised as finance income | **16 756** | 0 |
| Loss from sales of available for sale investments recognised as finance cost | **0** | 508 |

## NOTE 27

Business combination

In February 2016 North Energy completed the acquisition of 100% of the shares in North E&P AS (former Explora Petroleum AS) for a cash payment of USD 2.5 million. The transaction was approved by the Norwegian authorities in February 2016.

North Energy has consolidated its petroleum operations in a single company through transferring today's petroleum operations from North Energy to North E&P, thereby bringing employees together in a new organisation for the combined company. North Energy ASAs offshore activities subject to the Petroleum tax act ceased with effect 1 January 2016.

The acquisition of North E&P adds to the company's licence portfolio but the company has not entered into any commitments for drilling operations for these licences.

North Energy reported in the first quarter of 2016 a substantial gain from bargain purchase derived from this transaction. Explora had a high operating running costs and potential liabilities and was, prior to the acquisition, classified as a distressed company. This was reflected in the low market value of the company and lack of interest amongst potential buyers.

# NOTE 27

Business combination

Details on the purchase consideration, the net assets acquired and gain from bargain purchase are as follows:

| Purchase consideration: | |
|---|---|
| Cash paid (USD 2.5 million) | 21 390 |
| Total purchase consideration | 21 390 |

| The fair value of the assets and liabilities, and gain from bargain purchase recognised a result of the acquisition: | |
|---|---|
| Capitalised exploration and licence costs | 0 |
| Deferred tax asset | 40 661 |
| Prepayments and other receivables | 21 683 |
| Tax receivable, refund tax value exploration expenses | 238 128 |
| Cash and cash equivalents | 27 369 |
| Current borrowings | (195 000) |
| Trade creditors | (2 234) |
| Other current liabilities | (8 409) |
| Net fair value of identifiable assets acquired | 122 198 |
| Total purchase consideration | 21 390 |
| **Gain from bargain purchase recognised in income statement** | **100 808** |

**Loss contribution:**
The acquired business contributed net loss after tax of NOK 8.66 million to the group for the period from acquisition to 31 December 2016. If the acquisition had occurred on 1 January 2016, consolidated pro-forma net profit for the twelve months ending 31 December 2016 would have been NOK 76.63 million.

| Net cash flow arising on acquisition: | |
|---|---|
| Cash and cash equivalents acquired with the subsidiary | 27 369 |
| Cash paid | (21 390) |
| Net cash flow arising on acquisition | 5 979 |

# NOTE 28

New corporate and management structure

North Energy has completed the following reorganisation transactions and established a new corporate and management structure to strengthen the Company's business model and its commercial platform:

North Energy ASA and North E&P AS have entered into a sale and purchase agreement whereby North Energy ASA has transferred all of its petroleum related activities to North E&P AS. Effective date for this transaction is 1 January 2016. North Energy ASAs offshore activities subject to additional petroleum tax ceased with effect 1 January 2016.

A new subsidiary of North Energy ASA has been established and named North Energy Capital AS. North Energy ASA and North Advisors AS have entered into an transaction agreement whereby North Energy ASA has transferred substantially all of its financial assets to North Energy Capital AS, by way of a contribution in kind. Settlement of the transaction has been made through a consideration of new preference shares and 80 per cent of the ordinary shares in North Energy Capital AS. North Advisors AS holds the remaining 20 per cent of the ordinary shares. The preference shares held by North Energy ASA will be redeemed by way of dividend payments according to shareholders' agreement between North Energy ASA and North Advisors AS.

North Energy ASA and North Energy Capital AS have entered into an advisory agreement with North Advisors AS, whereby North Energy will outsource certain strategic, financial and business advisory services to North Advisors AS. North Advisors AS is an advisory company owned by a group of key stakeholders of North Energy ASA, consisting of Anders Onarheim, Rachid Bendriss and Didrik Leikvang. As remuneration for its services, North Advisors AS will receive a fee equivalent to 2 per cent per year based on the consolidated book equity of North Energy. The fee is calculated on a quarterly basis. The consultancy agreement with Kharybdis AS (Didrik Leikvang) was terminated as part of the establishment of this advisory agreement with North Advisors AS.

# NOTE 29

Events after the balance sheet date

North Energy Capital AS (""NEC""), a subsidiary of North Energy ASA (""North""), has through a series of transactions become the new major shareholder of Reach Subsea ASA (""Reach"") controlling a strategic stake of 28.7%.

Prior to the transaction, Accello Partners I AS (""Accello"") owned 30.3% of Reach. NEC has entered into an agreement with 74% of the shareholders of Accello, acquiring their shares and shareholder loans in Accello. The purchase consideration has been settled with 10.8m Reach shares valued at NOK 1.75.

The management team of North Advisors, who owns 26% of of Accello, has not sold its shares and shareholder loans to NEC.

Simultaneously, NEC/Accello has been allocated 14.3 million shares at NOK 1.75 per share in Reach's contemplated private placement (see separate stock exchange release for further details).

Post completion of the Accello acquisition and Reach private placement, selling shareholders of Accello have become direct shareholders of Reach, while Accello has become owner of 28.7% of Reach.

In February 2017 the Extraordinary General Meeting resolved to distribute a cash dividend to the shareholders of NOK 0.25 per share. The dividend amounts to a total of NOK 29.76 million. The dividend is not recognized as a liability in the financial statements as at 31 December 2016.

"Given the current market situation, North Energy will continue to safeguard its cash position and be very selective about future investments."

# Financial Statements – North Energy ASA

## Income statement

NOK 1 000

| | Note | 2016 | 2015 |
|---|---|---|---|
| Gain from sales of licences | 23 | 1 148 | 5 367 |
| Payroll and related expenses | 5 | (10 277) | (40 292) |
| Depreciation and amortisation | 16 | (1 378) | (6 050) |
| Exploration expenses | 17 | (5 781) | (415 240) |
| Other operating expenses | 6 | (24 555) | (44 251) |
| **OPERATING LOSS** | | **(40 843)** | **(500 466)** |
| Financial income | 18 | 27 558 | 44 295 |
| Financial expenses | 18 | (20 199) | (47 148) |
| **NET FINANCIAL ITEMS** | | **7 359** | **(2 854)** |
| Loss from transfer of petroleum related activities | 27 | (118 322) | 0 |
| Gain from contribution in kind | 27 | 32 759 | 0 |
| **LOSS BEFORE INCOME TAX** | | **(119 047)** | **(503 319)** |
| Income tax credit | 15 | 1 144 | 399 079 |
| **LOSS FOR THE YEAR** | | **(117 903)** | **(104 240)** |

# Statement of comprehensive loss

NOK 1 000

| | Note | 2016 | 2015 |
|---|---|---|---|
| **LOSS FOR THE YEAR** | | **(117 903)** | **(104 240)** |
| | | | |
| Other comprehensive income, net of tax: | | | |
| Items that will not be reclassified to profit or loss in subsequent periods: | | | |
| Actuarial gain/(loss) pension | 21 | 0 | (403) |
| Items that will be reclassified to profit or loss in subsequent periods: | | | |
| Available for sale investments - change in fair value | 26 | (1 296) | 1 296 |
| **TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX** | | **(1 296)** | **893** |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(119 199)** | **(103 347)** |

# Balance sheet

NOK 1 000

## ASSETS

| Non-current assets | Note | 31.12.2016 | 31.12.2015 |
|---|---|---|---|
| Property, plant and equipment | 16 | 0 | 3 768 |
| Capitalised exploration and licence costs | 17 | 0 | 4 |
| Investment in subsidiaries | 13 | 136 800 | 0 |
| Available for sale investments | 26 | (0) | 10 886 |
| Deferred tax asset | 15 | 0 | 149 803 |
| Other receivables | 7 | 2 418 | 7 634 |
| **TOTAL NON-CURRENT ASSETS** | | **139 218** | **172 095** |

| Current assets | | | |
|---|---|---|---|
| Prepayments and other receivables | 8 | 1 380 | 57 631 |
| Tax receivable, refund tax value exploration expenses | 15 | 0 | 382 642 |
| Cash and cash equivalents | 9 | 57 535 | 34 638 |
| **TOTAL CURRENT ASSETS** | | **58 915** | **474 910** |
| **TOTAL ASSETS** | | **198 134** | **647 004** |

## EQUITY AND LIABILITIES

| Equity | Note | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| Share capital | 10 | 119 047 | 119 047 |
| Share premium | | 965 772 | 965 772 |
| Other paid-in capital | | 30 691 | 30 691 |
| Retained earnings | | (925 016) | (805 817) |
| **TOTAL EQUITY** | | **190 494** | **309 693** |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Pension liabilities | 21 | (0) | 4 524 |
| Convertible loans | 25 | (0) | 41 041 |
| **TOTAL NON-CURRENT LIABILITIES** | | **(0)** | **45 565** |
| **Current liabilities** | | | |
| Current borrowings | 11 | 0 | 253 295 |
| Loan from subsidiary | 22 | 0 | 5 035 |
| Trade creditors | | 238 | 1 717 |
| **OTHER CURRENT LIABILITIES** | | **7 640** | **291 747** |
| **TOTAL CURRENT LIABILITIES** | | **7 640** | **337 312** |
| **TOTAL LIABILITIES** | | **7 640** | **337 312** |
| **TOTAL EQUITY AND LIABILITIES** | | **198 134** | **647 004** |

Oslo, 22 March 2017

Anders Onarheim, Chair | Jogeir Romestrand, Director | Elin Karfjell, Director | Johan Terje Bjerka, Director | Knut Sæberg, CEO

# Statement of changes in equity

NOK 1 000

| | Share capital | Share premium | Other paid-in capital | Retained earnings | Total equity |
|---|---|---|---|---|---|
| Equity at 1 January 2015 | 119 047 | 965 772 | 30 691 | (702 471) | 413 040 |
| Comprehensive income: | | | | | |
| Total compehensive income for 2015 | | | | (103 347) | (103 347) |
| **EQUITY AT 31 DECEMBER 2015** | **119 047** | **965 772** | **30 691** | **(805 817)** | **309 693** |
| | | | | | |
| Equity at 1 January 2016 | 119 047 | 965 772 | 30 691 | (805 817) | 309 693 |
| Comprehensive income: | | | | | |
| Total compehensive income for 2016 | | | | (119 199) | (119 199) |
| **EQUITY AT 31 DECEMBER 2016** | **119 047** | **965 772** | **30 691** | **(925 016)** | **190 494** |

# Cash flows statement

NOK 1 000

| Cash flow from operating activities | Note | 2016 | 2015 |
|---|---|---|---|
| Loss before income tax | | (119 047) | (503 319) |
| Adjustments: | | | |
| Tax refunded | 15 | 382 766 | 373 624 |
| Depreciation | 16 | 1 378 | 6 050 |
| Gain from sales of licences | 23 | (1 148) | (5 367) |
| Loss from transfer of petroleum related activities | 27 | 118 322 | 0 |
| Gain from contribution in kind | 27 | (32 759) | 0 |
| Pro&contra settlement from transfer of petroleum related activities | 27 | 5 718 | 0 |
| Impairment of capitalised exploration expenses | 17 | 0 | 171 365 |
| Pensions | | (1 115) | (12 193) |
| Transaction costs and interest on borrowings recognised in P&L | 18 | 14 633 | 26 072 |
| Changes in fair value of conversion rights and loans at amortised cost | 18 | 488 | 256 |
| Dividend from subsidiary recognised in P&L without impact on cash flows | 13.22 | 0 | (26 710) |
| Debt-financed exploration expenses without impact on cash flows | 25 | 0 | 9 531 |
| Gain/loss from sales of available for sale investments | 26 | (15 285) | 508 |
| Changes in trade creditors | | (1 479) | (19 278) |
| Changes in other accruals | | 17 378 | 4 205 |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | | **369 850** | **24 744** |

| Cash flow from investing activities | Note | 2015 | 2014 |
|---|---|---|---|
| Purchase of property, plant and equipment | 16 | (55) | (277) |
| Proceeds from sales of property, plant and equipment | | 0 | 361 |
| Proceeds from sales of licences | 23 | 1 135 | 16 181 |
| Capitalised exploration and licence costs | 15.17 | 0 | (200 170) |
| Investment in subsidiaries | 13 | (35 705) | 0 |
| Investment in preference capital receivable | 27 | 0 | 0 |
| Purchase of available for sale investments | 26 | (21 658) | (10 434) |
| Proceeds from sales of available for sale investments | | 25 816 | 335 |
| Proceeds/payments from other non-current receivables | 7 | (932) | 750 |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | | **(31 399)** | **(193 254)** |

| Cash flow from financing activities | | | |
|---|---|---|---|
| Funds drawn current borrowings | 1.22 | 57 616 | 580 000 |
| Repayments of current borrowings | 11.22 | (314 514) | (378 102) |
| Funds drawn convertible loans | 25 | 0 | 0 |
| Repayments of convertible loans | 25 | (41 529) | 0 |
| Repayments of loan from subsidiary | | (5 035) | (210) |
| Transaction costs and interest on borrowings paid | 11.18 | (12 092) | (24 165) |
| Proceeds from share issues | | 0 | 0 |
| Net cash flow from financing activities | | (315 553) | 177 523 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **22 898** | **9 013** |

| | | | |
|---|---|---|---|
| Cash and cash equivivalents at 1 January | 9 | 34 638 | 25 624 |
| **CASH AND CASH EQUIVIVALENTS AT 31 DECEMBER** | | **57 535** | **34 638** |

# Notes – North Energy ASA

## NOTE 1
General information

"North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office in Oslo. The company's shares were listed on Oslo Axess on 5 February 2010.

The financial statements were approved by the board of directors and CEO at 22 March 2017. "

Major transactions in 2016:
Information about reorganisation transactions completed in 2016 is provided i note 27.

## NOTE 2
Summary of significant accounting policies

**2.1 Basis for preparation**
The financial statements of North Energy ASA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements pursuant to the Norwegian Accounting Act.

**2.2 Accounting policies**
Accounting policies described in the consolidated financial statements of North Energy Group also applies for North Energy ASA. See description of accounting policies in note 2 in the consolidated financial statements of North Energy Group.

Investment in subsidiaries are in the financial statements of North Energy ASA (parent company) valued at cost, less any necessary impairment. Impairment to recoverable amount will be carried out if impairment indicators are present and recoverable amount is less than book value. Recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. Impairments are reversed when the cause and basis of the initial impairment is no longer present.

# NOTE 3

Financial risk management

See note 3 in the consolidated financial statements.

# NOTE 4

Critical accounting estimates and judgements

See note 4 in the consolidated financial statements.

# NOTE 5

Payroll and related expenses, remuneration of directors and management

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Salaries | 8 354 | 39 622 |
| Payroll tax | 1 850 | 2 992 |
| Pension costs (see note 21) | (177) | (3 822) |
| Other benefits | 250 | 1 500 |
| Total | 10 277 | 40 292 |

| | | |
|---|---|---|
| Average number of employees | 9,9 | 36,7 |

# NOTE 5

Payroll and related expenses, remuneration of directors and management (continued)

**Remuneration to directors and management:**
See note 5 in the consolidated financial statements.

**The board of directors' declaration regarding determination of salary and other remuneration to management employees**
The board of directors shall prepare a declaration in accordance with the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven) §6-16a. In accordance with the Norwegian Accounting Act §7-31b, the content of this declaration is presented.

The main principle for the company is that remuneration to management is competitive in a way that the company is able to attract and retain competent management employees. The remuneration shall primarely be based on achievement of results but also on individual criteria such as experience and area of responsibility. The remuneration system for management employees shall further encourage a strong and lasting profit oriented organisation which contributes to increasing the shareholder value.

Total remuneration to management employees includes:

**(1) Market-based fixed salary.**

**(2) Bonus.** The management is included in the company's general employee bonus programme. The bonus is limited to 4 months of salary. The bonus is linked to the achievement of specified parameters for each member of the executive management's area of responsibility. Both financial and non-financial parameters are used.

**(3) Pension and insurance**. The management is included in the company's general pension and insurance scheme.

**(4) Severance payment.** The CEO has agreement covering severance payment. In the event of resignation at the request of the board of directors, he has the right to a severance payment equivalent to two years of gross fixed salary.

**(5) Other benefits such as regular allowances to cover telephone, internet and travel insurance.**

## NOTE 6
Other operating expenses and remuneration to auditor

Other operating expenses include:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Travelling expenses | 719 | 3 808 |
| Lease expenses (see note 20) | 1 689 | 10 834 |
| Consultant and other fees | 16 716 | 14 659 |
| Advertising costs | 0 | 1 063 |
| Other administrative expenses | 5 431 | 13 887 |
| **Total** | **24 555** | **44 251** |

Remuneration to auditor is allocated as specified below:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Audit | 470 | 600 |
| Attestations | 30 | 54 |
| Accounting assistance | 0 | 0 |
| Assistance share issues and prospectus | 26 | 0 |
| Other assistance | 80 | 68 |
| **Total, excl. VAT** | **606** | **722** |

## NOTE 7
Other non-current receivables

Other non-current receivables include:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Deposit | 1 395 | 463 |
| Pension assets (note 21) | 1 023 | 7 171 |
| **Total** | **2 418** | **7 634** |

## NOTE 8
Prepayments and other receivables

Prepayments and other receivables include:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Prepaid expenses | 63 | 743 |
| VAT receivable | 0 | 2 614 |
| Receivables, from interests in licences | (0) | 54 273 |
| Receivables from subsidiaries | 1 317 | 0 |
| Other items | (0) | (0) |
| **Total** | **1 380** | **57 631** |

## NOTE 9

Cash and cash equivalents

Cash and cash equivalents:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Bank deposits | 57 535 | 34 638 |
| **Total cash and cash equivalents** | **57 535** | **34 638** |
| Of this: | | |
| Restricted cash for witheld taxes from employees salaries | 425 | 2 307 |

## NOTE 10

Share capital and shareholder information

See note 10 in the consolidated financial statements.

## NOTE 11

Current borrowings

Current borrowings include:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Revolving credit facility (exploration loan), funds drawn | 0 | 256 898 |
| Revolving credit facility (exploration loan), transaction costs | 0 | (3 603) |
| Balance 31 December | 0 | 253 295 |

In March 2016 North Energy ASA and the subsidiary North E&P AS signed an agreement to renew their exploration financing facility for the period 2016-17. The facility is limited up to NOK 200 million. Interest rate is NIBOR + 1.50%.

In November 2016 North Energy ASA has repaid its loan balance, and in February 2017 North Energy ASA ceased being a party to the facility agreement.

# NOTE 12

Other current liabilities

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Public duties payable | 517 | 3 264 |
| Accruals, from interests in licences | 0 | 13 761 |
| Holiday pay and bonus payable | 276 | 3 661 |
| VAT payable | 109 | 0 |
| Payable to subsidiaries | 5 457 | 0 |
| Other accruals for incurred costs | 1 043 | 11 015 |
| **Total** | **7 402** | **31 700** |

# NOTE 13

Investment in subsidiaries

**Amounts in NOK 1 000**

| Company | Location | Equity and voting share | Book value 31.12.2016 | Book value 31.12.2015 |
|---|---|---|---|---|
| North Energy Capital AS | Norway | 80 % | 136 800 | 0 |
| Total | | | 136 800 | 0 |

Former subsidiary 4sea Energy AS (acquired by North Energy ASA in February 2010) is owned 100% by North Energy Capital AS at 31 December 2016.

Former subsidiary North E&P AS is owned 100% by North Energy Capital AS at 31 December 2016. North E&P AS was acquired by North Energy ASA in February 2016 (see note 27).

North Energy Capital AS was established in June 2016. North Energy ASA and North Advisors AS have entered into an transaction agreement whereby North Energy ASA has transferred substantially all of its financial assets, including the shares in 4sea Energy AS and North E&P AS, to North Energy Capital AS, by way of a contribution in kind. Settlement of the transaction has been made through a consideration of new preference shares and 80 per cent of the ordinary shares in North Energy Capital AS. North Advisors AS holds the remaining 20 per cent of the ordinary shares (see note 27).

# NOTE 14

Related parties

During 2016 North Energy ASA has recharged salary related expenses to subsidiary North E&P AS of NOK 2.04 million, and North E&P AS has recharged salary and administrative related  expenses to North Energy ASA of NOK 0.22 million.

See note 27 and note 14 in the consolidated financial statements for furher infomation.

# NOTE 15

Tax

Specification of income tax:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Calculated refund tax value of exploration costs this year | 0 | 382 642 |
| Correction refund previous years | 124 | 0 |
| Change deferred tax asset in balance | (149 803) | 18 055 |
| Of this, deferred tax asset not recognised in income statement (transfer of petroleum related activities) * | 150 826 | 0 |
| Of this, deferred tax asset not recognised in income statement (sale of licences recognised net of tax) | (3) | (189) |
| Of this, deferred tax asset related to items in comprehensive income recognised in comprehensive income | 0 | (1 429) |
| **Total income tax credit** | **1 144** | **399 079** |

* Deferred tax asset 1 January 2016 included in loss from transfer of petroleum related activities from North Energy ASA to North E&P AS (see note 27).

Specification of tax receivable refund tax value exploration expenses:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Calculated refund tax value of exploration costs this year | 0 | 382 642 |
| Correction refund previous years, assessed but not settled | 0 | 0 |
| Total tax receivable refund tax value exploration expenses | 0 | 382 642 |

Due to the transaction whereby North Energy ASA has transferred all of its petroleum related activities to North E&P AS, North Energy ASAs offshore activities subject to additional tax ceased with effect 1 January 2016 (see note 27).

Oil-exploration companies operating on the Norwegian Continental Shelf may claim a 78% refund of their exploration costs limited to taxable losses for the year. The refund is paid in November the following year.

# NOTE 15

Tax (continued)

Specification of temporary differences, tax losses carried forward and deferred tax:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Property, plant and equipment | 0 | (6 016) |
| Capitalised exploration and licence costs | 0 | 4 |
| Pensions | 1 023 | 2 647 |
| Current borrowings | 0 | 3 603 |
| Convertible loans and conversion rights | 0 | 488 |
| Tax losses carried forward, onshore | (25 511) | 0 |
| Tax losses carried forward, offshore only 24% basis | 0 | (170 927) |
| Tax losses carried forward, offshore only 54% basis | 0 | (944) |
| Tax losses carried forward, offshore both 24% and 54% basis | 0 | (134 576) |
| Total basis for deferred tax | (24 488) | (305 720) |
| Deferred tax liability (-) / tax asset (+) | 5 877 | 149 803 |
| Uncapitalised deferred tax asset (valuation allowance) ** | (5 877) | 0 |
| Deferred tax liability (-) / tax asset (+) in balance | 0 | 149 803 |

** It is assessed to be most likely that the future tax assets related to pensions and onshore tax losses carried forward are not recoverable. Due to the transaction whereby North Energy ASA has transferred all of its petroleum related activities to North E&P AS, North Energy ASAs offshore activities subject to additional tax ceased with effect 1 January 2016 (see note 27).

Companies operating on the Norwegian Continental Shelf under the offshore tax regime can claim the tax value of any unused tax losses related to its offshore activities to be paid in cash from the tax authorities when offshore activities subject to additional tax cease. Deferred tax assets that are based on offshore tax losses carried forward are therefore recognised in full.

## NOTE 15
Tax (continued)

Reconciliation of effective tax rate:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Profit before tax | (119 047) | (503 319) |
| Expected income tax credit 25% (2015: 78%) | 29 762 | 392 589 |
| Adjusted for tax effects (25% - 78%) of the following items: | | |
| - Permanent differences | (22 620) | 9 374 |
| - Correction previous years | 124 | 0 |
| - Interest on tax losses carried forward offshore | 0 | 1 708 |
| - Finance items | 0 | (1 275) |
| - Changed tax rates from 1 January 2017 and January 2016 | (245) | (3 318) |
| - Change in valuation allowance for deferred tax assets | (5 877) | 0 |
| **Total income tax credit** | **1 144** | **399 079** |

## NOTE 16
Property, plant and equipment

| **Amounts in NOK 1 000** | **Equipment, office machines, etc** |
|---|---|
| **2016** | |
| Cost: | |
| At 1.1.2016 | 51 553 |
| Additions | 55 |
| Disposals (transfer of petroleum related activities to North E&P AS, see note 27) | (51 608) |
| At 31.12.2016 | 0 |
| | |
| Depreciation and impairment: | |
| At 1.1.2016 | (47 785) |
| Depreciation this year | (1 378) |
| Impairment this year | |
| Disposals (transfer of petroleum related activities to North E&P AS, see note 27) | 49 163 |
| At 31.12.2016 | 0 |
| | |
| Carrying amount at 31.12.2016 | 0 |

# NOTE 16

Property, plant and equipment

| 2015 | |
|---|---|
| Cost: | |
| At 1.1.2015 | 51 637 |
| Additions | 277 |
| Disposals | (361) |
| At 31.12.2015 | 51 553 |
| | |
| Depreciation and impairment: | |
| At 1.1.2015 | (41 735) |
| Depreciation this year | (6 050) |
| Impairment this year | 0 |
| Disposals | 0 |
| At 31.12.2015 | (47 785) |
| | |
| Carrying amount at 31.12.2015 | 3 768 |
| | |
| Economic life | 3-10 years |
| Depreciation method | linear |

# NOTE 17

Capitalised and expensed exploration and licence costs

(a) Capitalised exploration and licence costs

| **Amounts in NOK 1 000** | **Capitalised exploration and licence costs** |
|---|---|
| 2016 | |
| Cost: | |
| At 1.1.2016 | 4 |
| Additions, capitalised exploration and licence costs | 0 |
| Disposals, impairment | 0 |
| Disposals, sale | (4) |
| At 31.12.2016 | 0 |

# NOTE 17

Capitalised and expensed exploration and licence costs (continued)

| Amortisation and impairment: | |
|---|---|
| At 1.1.2016 | 0 |
| Amortisation this year | 0 |
| Impairment this year | 0 |
| Disposals | 0 |
| At 31.12.2016 | 0 |
| | |
| Carrying amount at 31.12.2016 | 0 |

| **2015** | |
|---|---|
| Cost: | |
| At 1.1.2015 | 11 540 |
| Additions, capitalised exploration and licence costs * | 200 170 |
| Disposals, impairment ** | (171 365) |
| Disposals, sale | (40 341) |
| At 31.12.2015 | 4 |
| | |
| Amortisation and impairment: | |
| At 1.1.2015 | 0 |
| Amortisation this year | 0 |
| Impairment this year ** | (171 365) |
| Disposals ** | 171 365 |
| At 31.12.2015 | 0 |
| **Carrying amount at 31.12.2015** | **4** |

* Additions relate mainly to drilling of exploration wells in PL 713 (Pingvin) and PL 510 (Tvillingen Sør).
** Disposals relate mainly to impairment of capitalised expenses in PL 713 (Pingvin) and PL 510 (Tvillingen South). The Pingvin discovery is at the present time assessed not to be commercially recoverable. The licence partners in PL 510 have decided to plug and abandon the exploration well. This follows a period of difficulties in a liner setting covering the intermediate part of the well.

# NOTE 18

Finance income and costs

Finace income:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Interest income bank deposits | 229 | 247 |
| Interest income on tax refund | 2 400 | 4 478 |
| Other interest income | 0 | 20 |
| Foreign exchange gain | 8 675 | 12 630 |
| Finance income, from interests in licences | 28 | 0 |
| Gain from sales of available for sale investments | 16 226 | 0 |
| Change in fair value of conversion rights | 0 | 134 |
| Dividend from subsidiary | **0** | **26 710** |
| Other finance income | **0** | **75** |
| **Total finance income** | **27 558** | **44 295** |

Finance costs:

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| Interest expenses and transaction costs on current borrowings | 11 662 | 17 796 |
| Interest expenses and amortised cost convertible loans | 3 458 | 3 632 |
| Interest expense on loan from subsidiary | 0 | 5 035 |
| Finance expenses, from interests in licences | 0 | 1 333 |
| Loss from realization of available for sale investments | 941 | 508 |
| Foreign exchange loss | 3 643 | 18 154 |
| Other finance costs | 494 | 690 |
| **Total finance costs** | **20 199** | **47 148** |

# NOTE 19

Financial instruments

**(a) Categories of financial instruments**

at 31 December 2016:

| **Amounts in NOK 1 000** | **Loans and receivables** | **Available-for-sale financial assets** |
|---|---|---|
| Assets: | | |
| Available for sale investments | | (0) |
| Other current receivables (see note 8) [1] | 1 317 | |
| Cash and cash equivalents | 57 535 | |
| **Total** | **58 853** | **(0)** |

| **Amounts in NOK 1 000** | **Financial liabilities measured at amortised cost** | **Financial liabilities at fair value through profit or loss** |
|---|---|---|
| Liabilities: | | |
| Convertible loans | (0) | |
| Trade creditors | 238 | |
| Other current liabilities (see note 12) [2] | 5 733 | |
| Current borrowings | 0 | |
| Loan from subsidiary | 0 | |
| **Total** | **5 971** | **0** |

at 31 December 2015:

| **Amounts in NOK 1 000** | **Loans and receivables** | **Available-for-sale financial assets** |
|---|---|---|
| Assets: | | |
| Available for sale investments | | 10 886 |
| Other current receivables (see note 8) [1] | 54 273 | |
| Cash and cash equivalents | 34 638 | |
| **Total** | **88 910** | **10 886** |

[1] Pension assets, deposit, prepaid expenses and VAT receivable are excluded since they are not defined as financial instruments.
[2] Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

# NOTE 19

Financial instruments (continued)

| Amounts in NOK 1 000 | Financial liabilities measured at amortised cost | Financial liabilities at fair value through profit or loss |
|---|---|---|
| Liabilities: | | |
| Convertible loans | 41 041 | |
| Trade creditors | 1 717 | |
| Other current liabilities (see note 12) [2] | 17 422 | |
| Current borrowings | 253 295 | |
| Loan from subsidiary | 5 035 | |
| **Total** | **318 509** | **0** |

[1] Pension assets, deposit, prepaid expenses and VAT receivable are excluded since they are not defined as financial instruments.
[2] Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

### (b) Fair value of financial instruments

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value, since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors, other current liabilities and current borrowings is approximately equal to fair value, since the effect of discounting is not significant, due to short term to maturity and no significant change in credit spread.

### (c) Creditworthiness of financial assets

The company does not have a system that separates receivables and loans by counterparty credit rating. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

| | 2016 | 2015 |
|---|---|---|
| Bank deposits: | 57 535 | 34 638 |

| Amounts in NOK 1 000 | 2016 | 2015 |
|---|---|---|
| No external credit rating | 0 | 0 |
| A | 57 535 | 34 638 |
| AA | 0 | 0 |
| **Total** | **57 535** | **34 638** |

### (d) Financial risk factors

See note 3 for financial risk factors and risk management, sensitivity analysis and capital management.

# NOTE 20

Leases

The company has no finance leases.

North Energy ASA has no operating leases at 31 December 2016. The company's operating leases has been tranferred to North E&P AS in connection with the transfer of petroleum related activities from North Energy ASA to to North E&P AS (see note 27).

Lease costs consist of ordinary lease payments and include:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Lease office premises (inclusive joint costs) | 1 689 | 11 349 |
| Lease machinery and office furniture | 0 | 3 |
| Lease cars | 0 | 45 |
| Sublease office premises | 0 | (563) |
| **Total lease costs** | **1 689** | **10 834** |

Future minimum rents related to non-cancellable leases and subleases fall due as follows:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Within 1 year | 0 | 2 144 |
| 1 to 5 years | 0 | 3 838 |
| After 5 years | 0 | 0 |
| **Total** | **0** | **5 982** |

## NOTE 21
Pension

The company has defined benefit pension plans. Future pension payments are mainly influenced by years of service, salary and payments from National Insurance. The defined benefit pension plans include at 31 December 2016 two employees (at 31 December 2015: 17 employees).

In connection with the transfer of petroleum related activities from North Energy ASA to North E&P AS (refer to note 27), all employees, with exception of one employee, was tranferred to North E&P AS. Further, the pension plans for these employees transferred to North E&P AS, except for one employee on sick leave, have been converted into defined contribution pension plans. The effects of settlements and conversion to defined contribution plans for these employees have been recognised in North E&P AS. The employee still employed in North Energy ASA and the employee on sick leave is still included in the defined benefit pension plans.

The pension arrangements fulfil the requirements of the Norwegian Act on mandatory occupational pensions.

See note 21 in the consolidated financial statements for furter information about the defined benefit pension plans.

## NOTE 22
Loan from subsidiary

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Loan from 4sea energy AS | 0 | 5 035 |
| Total | 0 | 5 035 |

Dividend from subsidiary 4sea energy AS in 2015 of NOK NOK 76,71 million was settled against the loan from the subsidiary, and the remaining loan balance at 31 December 2015 was incurred interest. The remaining loan balance at 31 December 2015 has been repaid in 2016.

## NOTE 23
Gain from sales of licences

Gain from sales of licences in 2016 relate to sale of:
- 10 per cent interest in PL 707 to Lime Petroleum Norway AS

Gain from sales of licences in 2015 relate to sale of:
- 5 per cent interest in PL 507 to Explora Petroleum AS
- 5 per cent interest in PL 507 to Tullow Oil Norge AS
- 10 per cent interest in PL 708 to Pure E&P Norway AS
- 10 per cent interest in PL 722 to to Aker BP ASA (former Det norske oljeselskap ASA)

## NOTE 24

Shares in licenses and obligations

North Energy ASA has no shares in licenses at 31 December 2016. All licenses has been tranferred to North E&P AS in connection with the transfer of petroleum related activities from North Energy ASA to to North E&P AS (see note 27).

## NOTE 25

Convertible loans

See note 23 in the consolidated financial statements.

## NOTE 26

Available for sale investments

Available for sale investments expenses include:

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Stock exchange-listed shares | 0 | 10 886 |
| Bonds | 0 | 0 |
| **Total carrying amount** | **0** | **10 886** |

| **Amounts in NOK 1 000** | **2016** | **2015** |
|---|---|---|
| Change in fair value recognised in equity through the statement of comprehensive income | (1 296) | 1 296 |
| Gain from sales of available for sale investments recognised as finance income | 16 226 | 0 |
| Loss from realization of available for sale investments recognised as finance cost | 941 | 508 |

# NOTE 27

Major transactions in 2016 - acquisition of North E&P AS and new corporate and management structure

**(a) Acquisition of North E&P AS (former Explora Petroleum AS)**

In February 2016 North Energy ASA completed the acquisition of 100% of the shares in North E&P AS (former Explora Petroleum AS) for a cash payment of USD 2.5 million. The transaction was approved by the Norwegian authorities in February 2016. For further infomation about the acquisition of North E&P AS, see note 27 in the consolidated financial statements. North Energy ASA has further completed the following reorganisation transactions and established a new corporate and management structure to strengthen the Company's business model and its commercial platform:

**(b) Transfer of petroleum related activities from North Energy ASA to North E&P AS**

'North Energy ASA and North E&P AS have entered into a sale and purchase agreement whereby North Energy ASA has transferred all of its petroleum related activities to North E&P AS. Effective date for this transaction is 1 January 2016. North Energy ASAs offshore activities subject to additional petroleum tax ceased with effect 1 January 2016.

'Settlement between the parties was completed 30 June 2016. Total consideration for the transfer was NOK 48 million, in addition to the pro&contra settlement for the interim period 1 January 2016 to 30 June 2016.

'The transfer has been recognised with effect 30 June 2016. Loss related to difference between the consideration and book values of net assets transferred, together with items in the income statement in the interim period, has been recognised in the income statement as loss from transfer of petroleum related activities, and the loss amounts to NOK 118,3 million.

Specification of the loss (amounts in NOK 1 000):

| | |
|---|---|
| Consideration | 48 000 |
| Deferred tax asset 1 January 2016 transferred * | 150 826 |
| Net book value of other assets and liabilities 1 January 2016 transferred | 36 613 |
| Loss before income tax in interim period | (21 117) |
| Loss from transfer of petroleum related activities | (118 322) |

* North Energy ASAs offshore tax losses carried forward from 31 December 2015 was transferred to North E&P AS as part of the petroleum related activities.

# NOTE 27

Major transactions in 2016 - new corporate and management structure (continued)

**(c) Establishment of North Energy Capital AS**

A new subsidiary of North Energy ASA has been established and named North Energy Capital AS. North Energy ASA and North Advisors AS have entered into an transaction agreement whereby North Energy ASA has transferred substantially all of its financial assets to North Energy Capital AS, by way of a contribution in kind. Settlement of the transaction has been made through a consideration of new preference shares and 80 per cent of the ordinary shares in North Energy Capital AS. North Advisors AS holds the remaining 20 per cent of the ordinary shares. The preference shares held by North Energy ASA will be redeemed by way of dividend payments according to shareholders' agreement between North Energy ASA and North Advisors AS.

The financial assets transferred from North Energy ASA to North Energy Capital AS consist of shares in subsidiaries 4sea Energy AS and North E&P AS, available for sale investments, receivable from North E&P of NOK 48 million (consideration in connection with the transfer of petroleum related activities), and cash.

Specification of gain arising from contribution in kind (amounts in NOK 1 000):

| | |
|---|---|
| Fair value of financial assets tranferred | 136 000 |
| Book value of financial assets tranferred | 103 241 |
| Gain from contribution in kind | 32 759 |

The gain is related to difference between fair value and book value of the shares in subsidiary North E&P.

**(d) Advisory agreement with North Advisors AS**

North Energy ASA and North Energy Capital AS have entered into an advisory agreement with North Advisors AS, whereby North Energy will outsource certain strategic, financial and business advisory services to North Advisors AS. North Advisors AS is an advisory company owned by a group of key stakeholders of North Energy ASA, consisting of Anders Onarheim, Rachid Bendriss and Didrik Leikvang. As remuneration for its services, North Advisors AS will receive a fee equivalent to 2 per cent per year based on the consolidated book equity of North Energy. The fee is calculated on a quarterly basis.

# NOTE 28

Contingent liabilities

As of 31.12.2016 North Energy ASA is not involved in any legal or financial disputes.

# NOTE 29

Events after the balance sheet date

See note 29 in the consolidated financial statements.

# Responsibility statement by the Board of Directors and CEO

We declare, to the best of our judgement, that the annual financial statements for the period from 1 January to 31 December 2016 have been prepared in accordance with the applicable accounting standards, and that the information in the accounts fairly reflects the Company's and Group's assets, liabilities, financial position and results as a whole.

We also declare that the Directors' report provides a true and fair view of the Company's and Group's performance, results and position, along with a description of the most important risk and uncertainty factors facing the Company and Group.

Oslo, 22 March 2017

Anders Onarheim, Chair

Jogeir Romestrand, Director

Elin Karfjell, Director

Johan Terje Bjerka, Director

Knut Sæberg, CEO

# Shareholder information

North Energy is listed on the Axess marketplace on Oslo Stock Exchange (Oslo Børs). The Company has one share class and each share carries one vote at the general meetings.

Top 20 shareholder list as per 18 April 2017:

| Name | No. of shares | % of total shares |
|---|---|---|
| AB INVESTMENT AS | 16 610 247 | 14.0% |
| CELISA CAPITAL AS | 6 700 000 | 5.5% |
| CITIBANK, N.A. | 5 521 088 | 4.6% |
| ISFJORDEN AS | 5 000 002 | 4.2% |
| JPB AS | 3 450 000 | 2.9% |
| SANDBECH SVEIN TERJE | 2 480 000 | 2.1% |
| SKS EIENDOM AS | 2 467 723 | 2.1% |
| NORDNET LIVSFORSIKRIG | 2 056 564 | 1.7% |
| CORUNA AS | 2 000 000 | 1.7% |
| BOYE HANS JØRGEN | 1 722 163 | 1.4% |
| VIKING INVESTMENTS ( | 1 514 728 | 1.3% |
| ORIGO KAPITAL AS | 1 343 569 | 1.1% |
| ROME AS | 1 300 000 | 1.1% |
| RBC INVESTOR SERVICE | 1 269 650 | 1.1% |
| TAJ HOLDING AS | 1 205 000 | 1.0% |
| GOLDMAN, SACHS & CO. | 1 162 833 | 1.0% |
| NORDNET BANK AB | 1 109 410 | 0.9% |
| HSBC BANK PLC | 1 100 000 | 0.9% |
| REYNOLDS DAG WILFRED | 1 050 00 | 0.9% |
| ALTA INVEST AS | 1 048 858 | 0,9% |
| | 60 111 835 | 50.5% |
| | 119 047 065 | 100.0% |

In 2016, the North Energy share rose 114 per cent, significantly outperforming the market and its peers. In comparison, an investment in the Oslo Børs Benchmark Index over the same period provided a positive return of 12.1 per cent, while the energy index yielded a return of 31.8 per cent in 2016. During the year 68.8 million shares changed hands on the Oslo Stock Exchange, up from 31.5 million in 2015, representing a daily average trading volume in North Energy of approximately 271 000 shares.

**Ownership structure**

At the end of 2016, North Energy had 959 share-holders, and approximately 41 per cent of the Company's shares were owned by foreign investors. This is an increase of 2 percentage points from 2015.

The Company's employees, management and Board held approximately 25 per cent of the shares in the Company.

North Energy's 20 largest shareholders held 68.4 per cent of the shares as of 31 December 2016. Please note that this list also consists of nominee shareholders that hold shares on behalf of their clients.

**Share capital**

North Energy's share capital at 31 December 2016 was NOK 119.047.065 divided into 119.047.065 shares, each with a nominal value of NOK 1.

# Auditors' report

# Auditors' report

To the General Meeting of North Energy ASA

***Independent Auditor's Report***

*Report on the Audit of the Financial Statements*

*Opinion*

We have audited the financial statements of North Energy ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive loss, statement of changes in equity, cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

*Basis for Opinion*

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.





| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Acquisition of subsidiary and accounting for bargain purchase gain* | |
| In February 2016, the group acquired 100% of the shares in North E&P (former Explora Petroleum AS). As a result of the transaction, the group recognized a bargain purchase gain in the income statement of NOK 100.8 million. A bargain purchase gain is defined as the excess of the value of assets and liabilities acquired over the consideration paid.<br><br>We focused on this area due to the significant values and the nature of the judgements and assumptions management are required to make in determining the value of the assets and liabilities acquired in the North E&P acquisition.<br><br>Please refer to notes 4.1. and 27 for a description of the business combination and accounting for bargain purchase gain. | We obtained and read the share purchase agreements relating to the acquisition of North E&P and held meetings with management to understand the nature and details of the transaction.<br><br>Management prepared a purchase price allocation (PPA) showing the estimated fair value of asset and liabilities acquired in the North E&P transaction. We obtained a copy of the PPA, considered the methodology applied, the completeness of assets and liabilities included and tested the mathematical accuracy.<br><br>We challenged the purchase price allocation prepared by management and whether there were other assets or liabilities not properly accounted for. A major part of the value assumed in the transaction was related to tax receivable and deferred tax assets from tax carryforward losses. Management measured the value of the tax receivable and tax loss carryforward position at nominal value in accordance with the accounting standard for income taxes. We reconciled the tax receivable and tax carryforward positions to the tax returns and underlying calculations submitted by North E&P for 2015. We further tested the tax refund receivable as at Dec 31, 2015 against the actual tax refund obtained in 2016. We also reconciled the tax carryforward loss position against the tax assessment for 2015 received in 2016 from the tax authorities.<br><br>The liabilities assumed in the transaction were reconciled to underlying agreements and documentation. Loan borrowings were assessed against bank statements as at the transaction date.<br><br>Other than examining the agreements for the purchase of the shares in North E&P we assessed underlying documentation supporting the assets and liabilities acquired as part of the transactions. We also considered costs paid and revenues obtained subsequent to the transaction to assess if any items should have been considered as part of the PPA.<br><br>The results of our testing showed that management had applied reasonable assumptions for the valuation of assets and liabilities assumed as part of the North E&P transaction. |

| | |
|---|---|
| *Recognition and valuation of current and deferred taxes* | |
| The Group has recognized a tax receivable of NOK 67.9 million at December 31, 2016. Under Norwegian Petroleum tax regulations, the North E&P is eligible for cash tax refunds calculated on exploration costs incurred. In addition, the North E&P has material unused tax loss carryforwards as part of the deferred tax position.<br><br>The calculation of current and deferred taxes under the Norwegian Petroleum Tax Act involves complexity and requires management judgement.<br><br>Refer to pages 5 in the Directors' report and notes 2, 4 and 15 in the financial statements. | We obtained all group companies' annual tax calculations as prepared by management and tested the mathematical accuracy of the tax calculations and formulas applied. We reconciled book and tax positions as of Dec 31, 2016 and Dec 31, 2015 used in the calculation to underlying documentation. We also tested the reconciliation of the tax assessment received against the prior year tax return.<br><br>We examined the application of the tax regulations and considered the classification of costs. This is relevant to assess North E&P's calculation of cash tax refund for net loss positions related to exploration costs incurred. Furthermore, we tested the reconciliation of the effective tax rate to underlying documentation. Uncertain tax positions were examined based on the application of tax regulations and by reviewing any correspondence with tax authorities. |
| *Pensions and change in pension arrangements* | |
| We focused on the accounting for pensions since the Company has decided to cancel the existing defined benefit plans and move to defined contribution plans for its employees.<br><br>We focused on the change in pension arrangements due to the judgmental nature of the assumptions used to calculate pension liabilities and effects of changes to arrangements.<br><br>Refer to note 21 In the financial statements. | The Company obtained calculations from an external actuary showing the current year pension expense, assumptions that go into the calculations and remaining pension liability.<br><br>We communicated with the actuary to understand independence, competence and the methodology applied in the pension calculations. We assessed the demographic assumptions against external expectations and found them consistent. Agreements related to the paid-up policies were obtained, considered and reconciled to the calculations performed by the actuary.<br><br>Furthermore, we reconciled the actuary calculations to the financial statements and note 21. |

*Other information*

Management is responsible for the other information. The other information comprises the sections North Energy at a glance, the CEO's Statement, the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Independent Auditor's Report - North Energy ASA

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or the Groups ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## *Report on Other Legal and Regulatory Requirements*

### *Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 22 March 2017
**PricewaterhouseCoopers AS**

Gunnar Slettebø
State Authorised Public Accountant

# North Energy ASA - Financial Calendar for 2017

North Energy ASA will present financial statements on the following dates in 2017:

Q1 2017 interim financial report: 10 May
Q2 2017 interim financial report: 22 August
Q3 2017 interim financial report: 9 November

Time and venue will be communicated at a later stage. All dates are subject to change.

The Annual General Meeting is expected to be held on 1 June 2017.

North Energy ASA
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